COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4835H.02I
Bill No.: HB 2143
Subject: Banks and Financial Institutions; State Treasurer
Type: Original
Date: February 20, 2024

Bill Summary: This proposal creates the "Foreign Adversary Divestment Act", requiring the state and local government entities to divest from investments in foreign adversaries.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
Total Estimated Net Effect on General Revenue	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**

*Oversight assumes the potential loss of investment returns and increased costs could result in an increase in employer contributions for state agencies that could exceed $250,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
State Road Fund*	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
Various Other State Funds*	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
Total Estimated Net Effect on Other State Funds	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**

*Oversight assumes the potential loss of investment returns and increased costs could result in an increase in employer contributions for state agencies that could exceed $250,000.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Federal Funds*	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
Total Estimated Net Effect on All Federal Funds	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**

*Oversight assumes the potential loss of investment returns and increased costs could result in an increase in employer contributions for state agencies that could exceed $250,000.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer** assume no fiscal impact from the proposal.

Officials from the **Missouri State Employee's Retirement System (MOSERS)** state under this proposed legislation adding new Section 1.2020, a state-managed fund, which includes funds controlled by political subdivisions of the state or in which the state or political subdivision has primary discretion or vested interest, would be:

(a) prohibited from holding investments in any foreign adversary (as listed and defined in the bill), state-owned enterprise of a foreign adversary, company domiciled within a foreign adversary, or a company owned or controlled by any of the preceding, or other entity within a foreign adversary;
(b) prohibited from investing or depositing public funds in any bank domiciled or having its principal place of business within a foreign adversary;
(c) required to immediately, in good faith, begin divestment of any prohibited holdings with total divestment achieved two years after the effective date of this new section.

For purposes of the prohibitions in this section, "domiciled" is defined as the place in which a company is registered, where the company's affairs are primarily completed, or whether the majority of its ownership is held.

Fiscal Impact – MOSERS makes the following assumptions and clarifications in providing this fiscal impact estimate:

(1) The proposed legislation will apply to require divestment of current MOSERS investments in Global Private Equities, Direct Hedge Funds, and Alternative Beta, and prohibit such investments in the future with exposure as prohibited by this new section.
(2) The proposed legislation will not apply to MO Deferred Comp investments, which funds ultimately belong to the deferred compensation participants, who direct their investment.
(3) The proposed legislation will require MOSERS to include, in any contract for an investment in an asset class that could otherwise potentially result in an investment in a restricted entity or restricted investment product, a provision requiring the manager to waive its discretion to make such prohibited investments.
(4) The MOSERS Board of Trustees adopted the following on December 12, 2023, and MOSERS is in the process of implementing this policy:

MOSERS staff shall act with all deliberate speed to divest from all Global Public Equity investments in China:

- *During a period that shall not exceed twelve months from the date of this motion;*
- *Staff may exceed the twelve-month deadline, but shall not exceed thirty-six months without Board approval:*
    - *to avoid incurring aggregate transaction costs in excess of $500,000;*

  - *to avoid selling Global Public Equity interests at a loss on secondary markets;*
  - *or to otherwise comply with legal requirements; and*
- *Prior to divesting any commingled fund for which divestment is necessitated and would result in a realized loss, staff are required to notify the Board. If, within two business days, four Trustees object, no further action shall be taken until a special or regular meeting of the Board; and*
- *No additional Global Public Equity investments in China shall be made after the adoption of this motion by the Board, meaning that the Emerging Markets portfolio shall be constructed "ex China" from this point forward and Taiwan shall be excluded from the definition of China for purposes of implementing this motion.*

(5) For purposes of this fiscal impact estimate, any short- and long-term fiscal impact that MOSERS has incurred or would incur from the December 2023 policy has been excluded from this estimate even though MOSERS has not yet fully implemented the policy and, if this proposed legislation were enacted, such fiscal impact might be equally attributable to this legislation.
(6) MOSERS is unclear the extent to which subsection 6 in this new section would limit the divestment requirements and prohibitions in this bill or how it might protect investment contracts pre-existing the bill's effective date or in effect at the time of a governor's declaration as provided in subdivision (4) of subsection 2.
(7) The value of the MOSERS portfolio as stated in its 2023 Annual Comprehensive Financial Report was $8.75 billion ($8,748,232,863).

<u>To the extent any of its assumptions prove incorrect, MOSERS reserves the right to revise this fiscal impact estimate accordingly</u>.

As with other institutional investors, MOSERS hires external managers that invest across different asset classes, such as private equity, hedge funds, private credit, etc., as these asset classes cannot be directly implemented by MOSERS staff. These managers are investment fiduciaries who act on behalf of the fund(s) they manage, which typically hold investments for multiple investors in addition to MOSERS.

MOSERS anticipates that most or all top-tier investment managers will be unwilling to agree contractually to waive their discretion to make investments in restricted entities or restricted investment products as would be prohibited by this legislation, even if a manager had no intention to make such an investment. Thus, the legislation will indirectly shrink MOSERS's investment opportunity set by eliminating, or at minimum severely limiting, MOSERS's ability to invest in Global Private Equities, Direct Hedge Funds, and Alternative Beta asset classes. These asset classes combined make up 30% of its portfolio.

<u>Private Markets</u>
For private market investments, predicting the fiscal impact with certainty is challenging for several reasons. First, the size and diversity of the private equity universe make it impossible to

state reliably what investment opportunities might exist when the bill would be effected, but we believe MOSERS's ability to hire quality private market managers will be greatly diminished. Second, we do not know future actual returns for any investment type. Despite these unknowns, to the best of MOSERS's ability, MOSERS has estimated a potential outcome for reallocating the 15% of the MOSERS portfolio currently invested in Global Private Equities.

If MOSERS cannot invest in Global Private Equities at all as a result of managers' unwillingness to forgo their discretion, MOSERS instead would likely invest those dollars ($1.31 billion) in Global Public Equities. According to Verus Advisory's capital market assumptions, as of December 2023, public equity is expected to earn at least 2.1% less per year than private equity (estimated 9.0% return for private equities compared to 6.9% for public equities) each year for the next 10 years. Therefore, we expect the future impact on investment in Global Private Equities to have an estimated <u>annual cost</u> of at least <u>$27.56 million per year</u> resulting from its investments currently in Global Private Equities being reallocated to comply with this legislative proposal ($8.75 billion × 15% × 2.1%).[1] This result is more conservative than some estimates of the private equity premium available over time.

In addition to the preceding recurring annual cost of divestment, the required divestment in this proposed legislation of current Global Private Equities exposure that included any prohibited foreign adversary exposure, the estimated short-term divestment impact would be $99.60 million. This amount assumes that there would be 80% (0.80) of MOSERS's original committed investment amount ($415.00 million) remaining in market value that would have to be divested at the end of the two-year deadline in the proposed legislation, forcing MOSERS to sell its remaining stakes in these funds at a 30% loss (0.80 × $415.00 million × 0.30 = $99.60 million).

<u>Direct Hedge Funds and Alternative Beta</u>
If MOSERS cannot invest in the Direct Hedge Funds and Alternative Beta asset classes as a result of managers' unwillingness to forgo their discretion, MOSERS would have to restructure its portfolio to eliminate both, which together make up 15% of MOSERS's overall investment allocation. Their elimination would result in a long-term diminished rate of return following the short-term costs of divestment to the portfolio.

For the past 5 years, Direct Hedge Funds and Alternative Beta asset classes have been a primary driver of MOSERS's excess return, or its out performance. Replacing these out-performing asset classes with assets with a similar risk profile would require substituting and over-allocating to other asset classes, which we believe would result in a portfolio with overall lower returns than with a full opportunity set of managers, funds, and investments.

Hence, they expect that the future prohibition on investment in Direct Hedge Funds and Alternative Beta would have an estimated annual cost ranging from $35.00 million to $65.00

million. This is based on their collective investment experience and knowledge as well as the historical and expected returns of these investments compared with other permitted investments with similar risks.

Summary

Based on the foregoing, they estimate that the annual cost to MOSERS from the proposed legislation would be $77.56 million ($27.56 million (relating to moving assets from Global Private Equities to Global Public Equities) + $50.00 million (the median estimated loss for moving assets from Direct Hedge Funds and Alternative Beta)). Using the 10-year time frame for the private equity over public equity estimated returns, the estimated cumulative loss in value to the portfolio from the proposed legislation during that time frame would be $1.07 billion. *See* Attachment A. This would be on top of the one-time cost of divestment, required to occur within two years of the bill's effective date. The estimated one-time cost would be $99.60 million for Global Private Equities divestment.

The MOSERS Board of Trustees sets its portfolio asset allocation in consultation with external investment consultants. From the asset allocation analysis, along with MOSERS's actuarial professionals, the Board also adopts actuarial assumptions including the assumed investment rate of return (currently 6.95%). The Board would likely need to modify the asset allocation significantly to achieve the expected 6.95%, lower the investment return assumption, or both, should this proposal become law.

A reduction of this investment return assumption would increase the actuarial accrued liabilities, causing an increase in the actuarially determined employer contribution and a decrease in the funded ratio of the system, ultimately resulting in an increased cost to employers to fill a larger gap between obligations and funding. At its September 2023 meeting, the Board adopted a 28.75% employer contribution rate for FY2025, but long-term diminished returns would cause the Board to increase its rates.

Information supplied by MOSERS's external actuarial professionals indicates a 1% reduction in MOSERS's assumed portfolio valuation would increase the actuarial accrued liabilities by an estimated $1.85 billion for FY2025. As a result, the employer contribution rate and employer contribution dollars are projected as follows:

	Employer Contribution Rate	Employer Contribution Dollars
Baseline - 6.95% - FY25	28.75%	$684,161,428
Reduced - 5.95% - FY25	35.57%	$846,456,417
INCREASE	**6.82%**	**$162,294,989**

Baseline - 6.95% - FY26	30.25%	$733,091,749
Reduced - 5.95% - FY26	35.79%	$867,350,535
INCREASE	**5.54%**	**$134,258,786**
Baseline - 6.95% - FY27	32.00%	$790,719,979
Reduced - 5.95% - FY27	35.51%	$877,452,076
INCREASE	**3.51%**	**$86,732,097**
Total Estimated 3-Year Increase		**$383,285,872**
Total Estimated 10-Year Increase		**$926,003,600**
Projections are based on the June 30, 2023 actuarial valuation and assume that all assumptions are met in the future. See Attachment B.		

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** state HB 2143, if enacted, would modify provisions related to public pension funds prohibiting investment activity in countries designated as foreign adversaries. The countries include the following: China, North Korea, Syria, Iran, Venezuela's Maduro Regime, Cuba, Russia, or any other entity designated by the governor in consultation with the attorney general. Within six months of the act's effective date, the state treasurer shall have identified all the companies domiciled in the countries designated as foreign adversaries. Divestment of holdings related to these foreign adversaries is required within two years of the effective date of this bill. HB 2143 would also require the divestment of companies identified by the state treasurer and the prohibition from investing in the future in the same companies.

Most of the foreign adversaries defined in the bill have existing and complete investment prohibitions and financial sanctions enforced by the United States federal government, except for China. While there are currently some investment prohibitions and trade restrictions against China, investing in China has not been completely prohibited.

Fiscal Impact
To comply with this bill, MPERS would have to sell, at a minimum, all public and private holdings in China and Hong Kong. MPERS currently owns approximately $48 million in Chinese public equities, $40 million in Hong Kong public equities, and $19 million in Chinese private equity. MPERS estimates lost profit of $4 million annually from selling public market equities. This cost estimate takes the projected return of MCSI ACWI with China relative to the MCSI ACWI without China. Selling Chinese private equity would result in an immediate loss of

approximately $5 million and an additional estimated loss of $800,000 per year. In total, the lost profit is estimated to be $5 million immediately and $4.8 million per year.

Estimating the cost of future divestment of or inability to invest in companies added by the governor or the state treasurer in the future is an impossible task. Until additional companies or foreign adversaries are identified for divestment, additional costs are indeterminable.

Officials from the **University of Missouri** state they have reviewed this proposed legislation. To the extent this proposed statute would force divestment of private market vehicles (i.e., private equity funds) within a two-year period, the costs to implement would be significant (potentially in excess of $5 million).

Officials from **Northwest Missouri State University** assume additional costs and losses depending on the timeline to divest or limiting only future investments.

Officials from the **University of Central Missouri** assume an indeterminate fiscal impact.

Officials from the **City of Kansas City** state the proposal will have a negative fiscal impact of an indeterminate amount.

Officials from the **County Employees Retirement Fund (CERF)** state they assume that the language in subsection 3 prohibiting state-managed funds from holding investments in any foreign adversary only applies to investments directly held by a state-managed fund and would not apply to investments indirectly held by a state-managed fund in a mutual fund. Assuming that this interpretation of the prohibition from holding these investments is accurate, HB 2143 would have no fiscal impact to CERF.

However, if the language in subsection 3 prohibiting state-managed funds from holding investments in any foreign adversary would include or apply to investments indirectly held by a state-managed fund in a mutual fund, then HB 2143 would likely require CERF to terminate relationships with two investment managers and would likely have a negative fiscal impact to CERF.

CERF's investment portfolio includes two international equity funds. These funds are actively managed. CERF's third-party investment consultant has identified whether these international equity funds include any investments in companies in countries prohibited by HB 2143. The investment consultant has determined that these two international equity funds hold investments in companies in countries that would be prohibited by HB 2143. As of the end of the third quarter 2023, these investments comprise 0.31% of the total CERF investment portfolio. Because these investment vehicles are structured as commingled investment funds, CERF would be unable to divest these particular companies; instead, HB 2143 would require CERF to terminate its relationship with the investment managers. CERF notes that it has worked with these two investment managers on a long-term basis since 1998 and 2012.

Terminating these two investment managers would likely have a negative fiscal impact to CERF. First, terminating the investment managers would require CERF to incur transaction costs and would increase administrative work to CERF, its investment consultant, its investment custodian, and the investment managers. Second, CERF would need to perform a manager search for different international equity funds that would not invest in any companies in countries prohibited by HB 2143. Given that HB 2143's scope includes investments in the People's Republic of China, as described in the act, and China is the world's second largest economy, it may be difficult to identify two similar actively managed international equity funds in terms of risk/return profile and fee structure that do not have investments in China; this may result in a lower investment return. Third, the divestment and transition process may cause CERF to lose out on investment return as assets would be sold and transferred to different investment managers.
In addition, CERF notes that the prohibition on page 2, subsection 3, line 40 includes the phrase "or other entity within a foreign adversary." This phrase is not defined; CERF is unclear as to its scope. CERF notes that this language seems broad and could be interpreted to apply to any company that has a presence within a foreign adversary. For example, numerous US companies have operations in China, such as Apple and General Motors, that could potentially be affected. If this is the case, then this phrase may result in reducing a portion of the investable universe.

Officials from the **Kansas City Civilian Police Employee's Retirement System** state divesting from investments in state-owned or domiciled companies may have negative economic consequences. The Police Retirement System of Kansas City and the Civilian Employees' Retirement System of the Police Department of Kansas City invest in diverse portfolios to maximize returns and optimize benefits for present and future retirees. Also, identifying and monitoring investments related to foreign adversaries requires a sophisticated and constantly updated system. Implementing and maintaining such a system would be resource-intensive and may create economic challenges for the Retirement System. Engaging a third-party independent research firm to identify companies that fit the criteria would incur additional costs, which cannot be determined at this time.

Officials from the **Kansas City Public Retirement System (KCPSRS)** state there may be a potential fiscal impact. Not able to estimate.

KCPSRS' various global or private equity managers may at times make an investment with a company or entity domiciled within a "foreign adversary." Restricting such investment opportunities may result in a lost investment opportunity resulting in a lower investment return for the System.

Officials from the **Public Schools and Education Employee Retirement Systems (PSRS)** and **Public Education Employee Retirement System (PEERS)** state this legislation, as currently drafted, is expected to impact the PSRS and the PEERS, by adding additional investment transaction costs and reducing the long-term investment earnings of the Systems in total. We have included our understanding of the proposed changes and the overall analysis by the Systems' actuaries, PwC US.

HB 2143 would amend Chapter 1 of the Revised Statutes of the State of Missouri ("RSMo") by adding a new section 1.2020. The bill prohibits all public pension funds in the state of Missouri, inclusive of PSRS and PEERS, from holding investments in any company domiciled within a foreign adversary. Foreign adversary is defined in the bill as the People's Republic of China, the Russian Federation, the Islamic Republic of Iran, the Democratic People's Republic of Korea, the Republic of Cuba, the Venezuelan regime of Nicolas Maduro, the Syrian Arab Republican, or any other entity designated by the governor [of Missouri] in consultation with the [Missouri] attorney general. Domicile is defined under in the bill as either the country in which a company is registered, or where the company's affairs are primarily completed. The bill requires the Systems to begin immediate divestment of holdings prohibited under the bill's provisions, beginning on August 28, 2024, and ending no later than August 28, 2026.

The above is our summary of the proposed changes and is not intended to be a comprehensive outline of the provisions of HB 2143.

As communicated to us by the Systems' staff ("Staff"), the Systems have an Investment Policy that has been reviewed and approved by the Board of Trustees and that governs how the Systems' funds shall be invested, and which includes an Anti-Terrorism and Economic Sanctions Policy for almost 20 years as of the date of this letter. Based on discussions with the Staff, it is our understanding that the Anti-Terrorism and Economic Sanctions Policy requires Staff to provide a full report to the Board on an annual basis that identifies compliance with the Policy and any action taken due to economic sanctions and terrorist activities. Further to this requirement, based on our discussions, we understand that the Systems monitor active holdings on a monthly basis, utilizing guidance from the U.S. Department of Commerce and the Office of Foreign Assets Control, including the Specially Designated Nationals and Blocked Persons List, Foreign Sanctions Evaders List and Sectoral Sanctions List. Additionally, we understand that the Systems contractually require investment managers and global custodians do the same.

Given HB 2143 will add additional restrictions to the investment options and transactional costs, we believe HB 2143 is expected to have a fiscal impact on the Systems. We understand that the Systems' asset allocation and overall performance would be directly impacted by the inability to invest in the broadest available opportunity set in the world economy as the bill would diminish the Systems' opportunity set; inclusive of public companies headquartered in the United States and other nations, and with regard to direct public holdings and access to private market investments. The impact of the diminished opportunity set is currently unknown. To illustrate the sensitivity of the potential fiscal impact, the following pages present a detailed estimate of the fiscal impact for both PSRS and PEERS of a 1.0% decrease in the overall return on assets in the Systems' portfolio. The Systems have acknowledged that the impact may vary from this level of decrease in returns, and could be a more substantial decrease; however the 1.0% sensitivity is consistent with the sensitivity analysis required by Government Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans . Due to the unknown impact on future returns, we have also included a chart summarizing the estimated fiscal impact for both PSRS and PEERS for a reduction in the assumed rate of return in increments of 0.10% from the current 7.3% assumption down to 6.3%.

The Systems have communicated to us that their investment returns for the 10-year time period ended June 30, 2023, exceeded the return of a passive portfolio of 60% global stocks and 40% bonds by 2.2% per year, resulting in added value above a traditional portfolio of $11.9 billion, while internal investment staff and external investment managers added value above the policy benchmark of almost $7.0 billion over the same time period. This outperformance was due to portfolio construction as well as active management on the part of external managers, which we understand the Systems believe would be impaired going forward if HB 2143 were enacted.

Officials from the **Missouri Sheriffs' Retirement System** state they may have a negative impact if this legislation passes. The Retirement System hires investment managers to invest its assets based on the investment policy. Setting constraints on investment guidelines has a potential of limiting investment earnings used to finance the retirement system. At the time the negative impact is unknown.

Officials from the **St. Louis Employees Retirement System** state they utilize many commingled investment vehicles for international investments because they are less cumbersome and less expensive to administer and the managers of these funds are experts in international investment opportunities and the processes for administering those assets. This legislation would prevent or hamper those investment opportunities. The Board believes that Missouri public pension investment fiduciaries should not be required to consider a standard other than the normal prudent investor standard currently imposed on Missouri public pension investment fiduciaries lest the System miss out on excellent investment opportunities.

Officials from the **St. Louis Public School Retirement System (PSRSSTL)** state the mission of the PSRSSTL is to enhance the well-being and financial security of its Members, Retirees and Beneficiaries through benefit programs and services that are soundly financed and prudently administered in an effective and efficient manner. To accomplish this mission, the System's Trustees, Staff, and investment professionals operate as fiduciaries with exclusive loyalty to act in the best interests of the System's Members and Beneficiaries and maintain the duty to invest assets according to prudent investor standards.

In evaluating HB 2143 and the provisions relating to divesting from foreign adversaries, the Trustees, Staff, and investment professionals of the System believe that complying with HB 2143 may result in the System violating its fiduciary duties owed to its Members. Furthermore, in reviewing other pending legislation pertaining to the State's Pension Systems, HB 2143 is in direct conflict with HB 1937, HB 1700, SB 815, SB 827 and SB 1113, all of which serve to prohibit non-pecuniary Environmental, Social and Governance issues as a basis for investing assets and voting proxies.

The System's Trustees, Staff, and Investment professionals must consider the needs of, or impact on the System's Members and Beneficiaries, the financial benefits or risks related to divestment, or any investment processes or policies in making the decisions. The following are potential impacts of divestment that may result in a breach of fiduciary duty and operating in a manner contrary to the best interests of Members and Beneficiaries:

- Regional divestment may limit the System's ability to participate in the full market opportunity set resulting in potential risks from less-than-optimal diversification and concentration to other regions, companies, and economic factors. In certain time periods this lack of diversification may result in tracking/error, relative performance differentials, and adverse risk-adjusted results versus market benchmarks.

- China remains a key player in the global economy with participation in the technology, manufacturing, and finance sectors. Divesting may result in missed opportunities as China continues to be a major driver of global economic growth. Interconnected global supply chains and market dynamics also translate to bigger risks for countries and companies with interrelated exposures that will be impacted by divestment.

- In addition to the potential return and risk costs, there are short-term trading costs (commissions) and market impact factors that accompany this type of legislation. If a short time window is presented to divest, the market will experience a negative impact from high-volume selling; essentially all required divestors will be forced to sell into declining markets and losses could be amplified.

- ➢ The System’s combined separate account managers have approximately **$1.3 million of exposure** to “foreign adversaries” that would need to be divested and would need to be addressed in the Investment Policy Statement and Manager Guidelines. If such legislation were to pass, the System would need to work in a measured and systematic pace, within the time frame prescribed, to allow managers to divest and to minimize potential negative cost and market impacts.

Continued engagement with global economic partners and diplomacy can promote near- and long-term benefits relative to a strategy of divestment. Maintaining investments and economic ties with major global economic participants can be a more effective lever for positive change and cooperation all while supporting the ability of large retirement systems to operate according to prudent fiduciary standards that place the interests of Members and Beneficiaries above all else.

Officials from the **Metro St. Louis Sewer District Employees Pension Plan** assume no fiscal impact from the proposal.

Based on the responses received, **Oversight** assumes there could be costs and investment losses to retirement systems as a result of this proposal which would result in an increase the actuarial accrued liability and a subsequent increase in the actuarially determined employer contribution rates. Based upon the responses provided, Oversight will reflect the fiscal impact as (Unknown, could be substantial) to the state, universities and local political subdivisions.

Oversight assumes "all state-managed funds are required to immediately, in good faith, begin divestment of any holdings prohibited in subsection 3 of this section (section 1.2020), with total divestment achieved two years after the effective date of this section." Therefore, Oversight assumes this could impact employer contribution rates as soon as FY 2026.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
Costs – increase in employer contribution rates	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**
STATE ROAD FUND			
Costs – increase in employer contribution rates	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
ESTIMATED NET EFFECT ON STATE ROAD FUND	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**
VARIOUS OTHER STATE FUNDS			
Costs – increase in employer contribution rates	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
ESTIMATED NET EFFECT ON VARIOUS OTHER STATE FUNDS	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
FEDERAL FUNDS			
Costs – increase in employer contribution rates	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
Costs – increase in employer contribution rates	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**(Unknown, could be substantial)**	**(Unknown, could be substantial)**

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill establishes the "Foreign Adversary Divestment Act".

All state-managed funds, as defined in the bill, are prohibited from holding investments in any foreign adversary, as defined in the bill, state-owned enterprise of a foreign adversary, company domiciled within a foreign adversary, or a company owned or controlled by any such entity.

State-managed funds are further prohibited from investing or depositing public funds in any bank domiciled or principally located within a foreign adversary.

Any state-managed fund in violation of this bill is required to immediately begin divestment of any public holdings, to be fully divested within two years of the effective date of the bill.

Within six months after the effective date of this bill, the State Treasurer shall identify companies subject to these restrictions and distribute a list of these restricted companies to each state managed fund. Methods of gathering this information are specified in the bill.

his legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

<u>SOURCES OF INFORMATION</u>

Office of the State Treasurer
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
University of Missouri System
City of Kansas City
County Employees Retirement Fund
Kansas City Civilian Police Employees' Retirement
Kansas City Police Retirement System
Kansas City Public School Retirement System
Metropolitan St. Louis Sewer District Employees Pension Plan
Public Schools and Education Employee Retirement Systems
Sheriff's Retirement System
St. Louis Employees Retirement System
St. Louis Public School Retirement System
Northwest Missouri State University
University of Central Missouri

Julie Morff
Director
February 20, 2024

Ross Strope
Assistant Director
February 20, 2024