COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0307H.01I
Bill No.: HB 196
Subject: Banks And Financial Institutions; State Treasurer
Type: Original
Date: February 24, 2025

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 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Federal Funds*	$0	(Unknown, could be substantial)	(Unknown, could be substantial)
Total Estimated Net Effect on <u>All</u> 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 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Local Government*	**$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 local political subdivisions.

FISCAL ANALYSIS

ASSUMPTION

Section 1.2020 – Foreign Adversary Divestment Act

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.

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

(1) The estimated fiscal impact this legislation will have on MOSERS is based upon the most recent capital market assumptions as financial markets are unpredictable.
(2) As drafted, the proposed legislation will apply to MOSERS's current investments in Global Private Equities and Alternative Beta and prohibit such investments in the future in any asset classes with exposure as prohibited by this new section.
(3) The proposed legislation will not apply to MO Deferred Comp investments, which funds ultimately belong to the deferred compensation participants, who direct their investment.
(4) 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.
(5) The MOSERS Board of Trustees adopted an ex-China policy for Global Public Equity investments on December 12, 2023.
(6) As part of its Investment Policy Statement, MOSERS has procedures designed to prevent its assets from being directly or indirectly invested in a "sanctioned entity," defined as an entity that is designated by the U.S. Department of State as a foreign terrorist organization or state sponsor of terrorism; or included on the Specially Designated

Nationals and Blocked Persons List promulgated by the U.S. Department of Treasury's Office of Foreign Assets Control.

(7) 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.

(8) The value of the MOSERS portfolio as stated in its 2024 Annual Comprehensive Financial Report was $9.0 billion ($8,956,495,184).

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

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 Equity</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 they believe MOSERS's ability to hire quality private market managers will be greatly diminished. Second, they 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 ($1.34 billion) in Global Public Equities. According to Verus Advisory's capital market assumptions for 2025, global public equity is expected to earn at least 3.6% less per year than global private equity (estimated 10.9% return for private equities compared to 7.3% for public equities) each year for the next 10 years. Therefore, MOSERS expects the future impact on investment in Global Private Equities to have an estimated <u>annual cost</u> of at least <u>$48.4 million per year</u> resulting from its investments currently in Global Private Equities being reallocated to comply with this

legislative proposal ($9.0 billion × 15% × 3.6%). 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 reallocating investments from Global Private Equities, the required divestment in this proposed legislation of current Global Private Equities exposure that included any prohibited foreign adversary exposure or investments for which the manager would not agree to waive its discretion, the estimated short-term divestment impact would be $132.8 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 broker-estimated 40% loss (0.80 × $415.00 million × 0.40 = $132.8 million)."

Alternative Beta
MOSERS currently is transitioning assets to implement a strategic target allocation approved by its Board of Trustees on July 1, 2024. As part of this implementation, over the next two years, MOSERS's hedge fund investments in the Direct Hedge Fund asset class will transition into the Alternative Beta asset class. Although those two asset classes are being combined, hedge fund investments continue to be part of MOSERS's investment portfolio. They believe this legislation will limit MOSERS's investment opportunities in Alternative Beta and negatively affect MOSERS's returns because investment managers will not agree to contract with MOSERS given this legislation's restrictions.

If MOSERS cannot invest in the Alternative Beta asset class, which includes hedge funds, as a result of managers' unwillingness to forgo their discretion, MOSERS would have to restructure its portfolio to eliminate these investments. Alternative Beta makes up 15% of MOSERS's overall investment allocation and has consistently been a primary driver of MOSERS's excess return, or its out performance, for the past 5 years. Eliminating the ability to invest in these types of investments would result in a long-term diminished rate of return following the short-term costs of divestment to the portfolio. Additionally, replacing these out-performing assets with assets with a similar risk profile would require substituting and over-allocating to other asset classes, which they 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 Alternative Beta, including hedge funds, 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 $98.4 million ($48.4 million (relating to moving assets from Global Private Equities to Global Public Equities) + $50.00 million (the median estimated loss for moving

assets from 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 $1.36 billion.

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 $132.8 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 and/or risk 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 2024 meeting, the Board adopted a 30.25% employer contribution rate for FY2026, 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 unfunded actuarial accrued liabilities by an estimated **$2.1 billion for FY2026**. As a result, the employer contribution rate and employer contribution dollars are projected as follows:

Assumed Rate of Return	Employer Contribution Rate	Employer Contribution Dollars
Baseline - 6.95% - FY26	30.25%	$804,246,394
Reduced - 5.95% - FY26	32.38%	$860,875,975
INCREASE	**2.13%**	**$56,629,581**
Baseline - 6.95% - FY27	32.00%	$861,726,879
Reduced - 5.95% - FY27	32.50%	$875,191,362
INCREASE	**0.50%**	**$13,464,483**

Baseline - 6.95% - FY28	32.00%	$878,894,617
Reduced - 5.95% - FY28	33.27%	$913,775,747
INCREASE	**1.27%**	**$34,881,130**
Total Estimated 3-Year Increase		**$104,975,194**
Total Estimated 10-Year Increase		**$244,043,168**
Projections are based on the June 30, 2024, actuarial valuation and assume that all assumptions are met in the future.		

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)** state 196, 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 196 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 all public holdings in China and Hong Kong at a minimum and allow no future private investments in China. MPERS currently owns approximately $48 million in Chinese public equities, $6 million in Hong Kong public equities, and $15 million in Chinese private markets. MPERS estimates a lost profit of $3 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 estimated loss of $3.75 million and an additional estimated loss of $400,000 annually. The total estimated lost profit would be $3.75 million immediately and $3.4 million annually.

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 System** 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 196 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 196 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 196. The investment consultant has determined that these two international equity funds hold investments in companies in countries that would be prohibited by HB 196. These investments comprise 0.78% 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 196 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 196. Given that HB 196'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** and **Kansas City Police Retirement System** state divesting from investments in state-owned or domiciled companies may have negative economic consequences. The divestment requirements could force the liquidation of high-performing investments before maturity or under unfavorable market conditions, leading to significant opportunity costs and realized losses. 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.

Compliance with this legislation will introduce several administrative and operational burdens. These include the costs of engaging independent research firms to identify prohibited holdings, developing compliance mechanisms, and continuously monitoring the evolving list of restricted companies. Asset managers may also charge additional fees for restructuring portfolios to adhere to these restrictions. Moreover, reducing the pool of potential investments could drive up management costs as fund managers seek to identify compliant alternatives. The requirement to fully divest within two years places undue pressure on state-managed funds to rapidly shift strategies, incurring additional transaction fees and reducing the ability to manage asset transitions strategically.

Officials from the **Kansas City Public School Retirement System (KCPSRS)** assume the proposal will a fiscal impact on their organization.

In response to similar legislation, HB 2143 (2024), KCPSR stated their 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. They have included their understanding of the proposed changes and the overall analysis by the Systems' actuaries, PwC US.

HB 196 prohibits all public pension funds in the state of Missouri from holding investments in any company domiciled within a foreign adversary. The countries listed in the proposed legislation as a foreign adversary include "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 HB 196 as "either the country in which a company is registered" or "where the company's affairs are primarily completed." HB 196 requires public pension funds in the state of Missouri to begin immediate divestment of holdings prohibited under the bill's provisions, beginning on August 28, 2025 and ending no later than August 28, 2027.

The proposed legislation would significantly alter the Systems' ability to set a prudent asset allocation. This bill would diminish the Systems' opportunity set within the world economy, inclusive of public companies headquartered in the United States and other nations. The changes would not only impact direct public holdings, but substantially impact access to private market investments. The proposed legislation would prohibit PSRS/PEERS from working with top-tier investment managers in all assets classes.

PSRS/PEERS has long had an Investment Policy reviewed and approved by the Board of Trustees that governs how the Systems' funds shall be invested. For nearly twenty years, this Investment Policy has included an Anti-Terrorism and Economic Sanctions Policy. 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. The Systems monitor their active holdings on a monthly basis. The Systems utilize 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, the Systems contractually require their investment managers and global custodian to do the same.

The Board-approved Investment Policy and asset allocation has performed extremely well in supporting retirement for Missouri educators. The Systems' investment returns for the 10-year time period ended June 30, 2024 exceeded the return of a passive portfolio of 60% global stocks and 40% bonds by 1.9% per year, resulting in added value above a traditional portfolio of $11.6 billion, while internal investment staff and external investment managers added value above the policy benchmark of over $6.5 billion over the same time period. This outperformance was due to portfolio construction as well as active management on the part of external managers.

HB 196 is expected to have a fiscal impact on the Systems. The initial fiscal impact is the one-time transaction and operational costs of divestment of any identified portfolio holdings that are

"domiciled" in a foreign adversary, which could include subsidiaries of companies, including public companies headquartered in the United States or other nations. This divestment cost has an expected range from $11.8 million to $12.6 million. Additionally, the Systems would incur immediate 'investment fee' impact as it transitions away from legacy portfolios. This impact is estimated at an additional recurring cost of $11.9 million annually. Further, the Systems expect to incur unknown compliance costs to meet the reporting obligations created under HB 196. Finally, as a global institutional investor, the Systems' asset allocation and overall performance is directly impacted by the ability to invest in the broadest available opportunity set in the world economy. That opportunity set is then viewed through the lens of the Board-approved Investment Policies. This bill would diminish the Systems' opportunity set within the world economy, inclusive of public companies headquartered in the United States and other nations. The changes would not only impact direct public holdings, but substantially impact access to private market investments. The impact of the diminished opportunity set is currently unknown, but considered significant. The enclosed analysis reflects the impacts of a 1.0% decrease in the overall return on assets in the Systems' portfolio. The Systems acknowledge the impact will vary from this amount and could be substantially higher; however the 1.0% sensitivity is consistent with the sensitivity analysis required by Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans.

The asset allocation shifts that would be required by this legislation would greatly diminish the Systems' returns. A 1.0% decrease in the Systems' assumed rate of return, increases PSRS' unfunded liability by $7.4 billion and increases the actuarially determined contribution rate (ADC) to 39.32% from 27.98%. The impact for PEERS is an increase in the unfunded liability of $1.0 billion and the ADC would increase to 17.50% from 13.22%.

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 the potential of limiting investment earnings used to finance the retirement system. At the time the negative impact is unknown.

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 196 and the provisions relating to divesting from foreign adversaries, the Trustees, Staff, and investment professionals of the System believe that complying with HB 196 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 196 is in

direct conflict with SB 389, which serves 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.

- 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 **Rock Community Fire Protection District Retirement Plan** assume the proposal will have no fiscal impact on their organization.

In response to similar legislation, HB 2143 (2024), officials from the **Metro St. Louis Sewer District Employees Pension Plan** assumed no fiscal impact from the proposal.

In response to similar legislation, HB 2143 (2024), officials from the **St. Louis Employees Retirement System** stated 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.

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 2027.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
Costs – increase in employer contribution rates - §1.2020	$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 - §1.2020	$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)**

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
VARIOUS OTHER STATE FUNDS			
Costs – increase in employer contribution rates - §1.2020	$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)**
FEDERAL FUNDS			
Costs – increase in employer contribution rates - §1.2020	$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 2026 (10 Mo.)	FY 2027	FY 2028
LOCAL POLITICAL SUBDIVISIONS			
Costs – increase in employer contribution rates - §1.2020	$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.

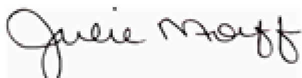
Any state-managed fund in violation of this bill is required to immediately begin the divestment of any public holdings, to be fully divested within two years of the effective date of the bill.

Within six months after the effective date of this bill, the State Treasurer must 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.

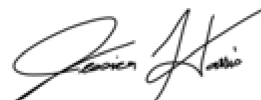
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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
Rock Community Fire Protection District Retirement Plan



Julie Morff
Director
February 24, 2025



Jessica Harris
Assistant Director
February 24, 2025