

ASSEMBLY BILL

No. 2745

Introduced by Assembly Member Kaloogian

February 25, 2000

An act to add Section 7513.6 to the Government Code, relating to public retirement fund investments.

LEGISLATIVE COUNSEL'S DIGEST

AB 2745, as introduced, Kaloogian. Public retirement fund investments: national security.

Under the California Constitution, the retirement boards of public pension or retirement systems have plenary authority over the investment of pension funds, subject to their fiduciary duties to the members of the system; however, the Legislature may prohibit specified investments when it is in the public interest to do so and when specified fiduciary standards are satisfied.

This bill, the California State Investment Transparency and Disclosure Act, would state legislative concerns and encourage the Teachers' Retirement Board and the Board of Administration of the Public Employees' Retirement System not to invest in foreign companies that pose a threat to national security, as specified. The bill would require the respective boards to require their internal and external fund managers to perform and disclose due diligence with respect to potential investments in those companies and to hire an independent auditor to review and report to the board and the Legislature regarding present and proposed investments

in those companies, as specified, which reports would be available to the public.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. This act shall be known, and may be
2 cited as, the California State Investment Transparency
3 and Disclosure Act.

4 SEC. 2. (a) The Legislature is concerned about
5 foreign companies that pose threats to national security
6 through terrorism or the proliferation of weapons of mass
7 destruction, as documented by the federal Department
8 of State.

9 (b) The Teachers' Retirement Board and the Board of
10 Administration of the Public Employees' Retirement
11 System are encouraged, pursuant to the fiduciary
12 standards prescribed by Section 17 of Article XVI of the
13 California Constitution and related statutes, not to invest
14 in foreign companies that pose those threats.

15 SEC. 3. Section 7513.6 is added to the Government
16 Code, to read:

17 7513.6. (a) The Teachers' Retirement Board and the
18 Board of Administration of the Public Employees'
19 Retirement System shall require all internal and external
20 fund managers to perform, and disclose to the board, due
21 diligence with respect to potential investments in foreign
22 companies and any threats to national security that those
23 companies may pose.

24 (b) (1) The Teachers' Retirement Board and the
25 Board of Administration of the Public Employees'
26 Retirement System shall each hire an independent
27 auditor to study and evaluate present and proposed
28 investments by the respective systems in foreign
29 companies, specifically those believed to be involved in
30 terrorism or the proliferation of weapons of mass
31 destruction.

32 (2) Each auditor shall report quarterly to their
33 respective boards and to the Legislature regarding its



1 findings with respect to present and proposed
2 investments by the system in foreign companies and,
3 when warranted, may recommend the divestment of
4 investments in specific companies that pose a threat to
5 national security. The reports shall be made available to
6 the public.

O

