

Virginia Retirement System 2009 Fiscal Impact Statement

1. Bill Number: HB2357

House of Origin	<u>X</u>	Introduced	<u> </u>	Substitute	<u> </u>	Engrossed
Second House	<u> </u>	In Committee	<u> </u>	Substitute	<u> </u>	Enrolled

2. Patron: Gilbert

3. Committee: Appropriations`

4. Title: Virginia Retirement System; investments related to state sponsor of terrorism.

5. Summary: Virginia Retirement System; investments related to state sponsor of terrorism. Requires the Virginia Retirement System, under certain circumstances, to divest itself of investments in companies meeting certain criteria gauged to be related to a state sponsor of terrorism. For purposes of this bill, state sponsor of terrorism includes such Iran, Sudan, Syria, and North Korea.

6. Fiscal Impact Estimates: The bill would preclude VRS from investing in approximately 132 companies domiciled in the U.S., Europe, and Asia. Up to \$1.06 billion in stocks in 67 companies or about 6 percent of the VRS public equity portfolio would be subject to divestment. Transaction costs for selling the stocks of scrutinized companies and buying replacements are expected to range from \$5.1 million to \$28.1 million. VRS is unable to estimate the possible loss in future earnings that could result from a substantially reduced set of investment opportunities.

Note: There are no pre-established screening criteria or industry lists that fully comply with this bill's language. Accordingly, RiskMetrics made a best effort to identify companies doing business in or with Syria and North Korea. Companies doing business with Sudan were screened using a list of companies developed by Sudan Divestment Task Force. In the case of companies doing business with Iran, RiskMetrics used its Iran Focus List. The development of a customized analysis was not possible within the timelines established for this impact statement's completion. Accordingly, there could be additional companies that meet the parameters set forth in this bill.

7. Budget Amendment Necessary: No

8. Fiscal Implications: See Other Comments below.

9. Specific Agency or Political Subdivisions Affected: VRS

10. Technical Amendment Necessary: No

11. Other Comments:

The VRS Board of Trustees has a number of concerns about divestment legislation:

Fiduciary/Constitutional Concern – Article 11 of the Virginia Constitution sets out an important fiduciary standard that requires VRS trust funds to be “invested and administered solely in the interests of the members and beneficiaries thereof.” Divestment is contrary to this principal as it requires the Board to consider interests other than the best interest of members. The Board endorses the current standard as a means to insulate the investment program from political exigencies of the day and ill-considered investment schemes.

Adverse Impact on the Investment Program – The bill would require VRS to sell profitable investments and severely restrict future investment opportunities. Companies from most of the developed economies in the world, including Fortune 500 companies in the U.S., would be placed off limits to the VRS investment program. As of January 20, 2009, VRS held \$1.06 billion in stocks issued by 67 companies deemed to be “scrutinized companies” by research providers and subject to divestment. This group of stocks includes \$148 million in stocks issued by 5 companies domiciled in the U.S.

Cost of Administration – VRS estimates it will incur transaction costs ranging between \$5.1 million to \$28.1 million. This represents the estimated round-trip costs of selling \$1.06 billion in stocks and purchasing another \$1.06 billion in replacements. Both brokerage fees and market impact are included in the estimate. Actual costs will depend on market conditions at the time each transaction is executed.

Other Implications – Some of the firms subject to divestment operate in Virginia, pay Virginia taxes, and employ Virginia citizens.

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