

Virginia Retirement System 2008 Fiscal Impact Statement

1. Bill Number: HB930

House of Origin X Introduced Substitute Engrossed

Second House In Committee Substitute Enrolled

2. Patron: Gilbert

3. Committee: Appropriations

4. Title: **Virginia Retirement System; investments related to countries sponsoring terrorism.**

5. Summary: Virginia Retirement System; investments related to countries sponsoring terrorism. Requires the Virginia Retirement System, under certain circumstances, to divest holdings in companies doing business in countries designated as state sponsors of terrorism, in particular the countries of Sudan, Syria, North Korea, and Iran.

6. Fiscal Impact Estimates:

The bill would preclude VRS from investing in hundreds of blue-chip companies domiciled in the U.S., Europe, and Asia. Up to \$3.3 billion in stocks or about 9 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 \$372.9 million to \$887.7 million. VRS is unable to estimate the possible loss in future earnings that could result from a substantially reduced set of investment opportunities.

7. Budget Amendment Necessary: No.

8. Fiscal Implications: See Other Comments below.

9. Specific Agency or Political Subdivisions Affected: VRS.

10. Technical Amendment Necessary:

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. Blue-chip 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. According to Institutional Shareholder Services (ISS), as of 11/30/07 VRS held \$3.3 billion in stocks issued by 181 companies deemed to be “scrutinized companies” subject to divestment. This group of stocks includes \$1.3 billion in stocks issued by 33 companies domiciled in the U.S.

Cost of Administration – VRS estimates it will incur transaction costs ranging between \$372.9 million to \$887.7 million. This represents the estimated round-trip costs of selling \$3.3 billion in stocks and purchasing another \$3.3 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 – Many of the firms subject to divestment operate in Virginia, pay Virginia taxes, and employ Virginia citizens. Some of the restricted companies have been recently recruited to build facilities in Virginia or are the subject of ongoing recruitment efforts. Divestment would be viewed by these companies as a hostile act by the Commonwealth.

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