



April 14, 2022

The Honorable Bill Dodd, Chair
Senate Governmental Organization Committee
State Capitol
Sacramento, CA 95814

RE: SB 1328 (as amended March 3, 2022)

Dear Chairman Dodd,

The State Association of County Retirement Systems (SACRS) is writing to express concern with SB 1328, specifically how it impacts the ability of County Employees Retirement Law (CERL) plans to administer their investment programs and ensure trust fund assets are expended solely for the purpose of paying benefits and reasonable administrative expenses. SACRS is not opposed to the humanitarian goals of the bill, however executing a divestment in accordance with the bill's provisions presents significant obstacles.

The 20 CERL plans are varied in size, plan member demographics, investment portfolios and assets, but the one thing they have in common is that they use external investment managers to invest trust fund assets. This is a cost-effective and efficient way to access institutional markets without the necessity of employing experts in active investing, and it satisfies the constitutional fiduciary duty to prudently manage the trust. This bill would require the plan to engage in a detailed analysis to identify prohibited holdings and hire a research firm to perform the same analysis, and then notify companies that were flagged and require certain actions. There are additional administrative steps to be followed, all of which require the expenditure of trust fund assets and personnel time in smaller, local retirement systems that do not have the capacity of corporate governance divisions in the bigger, statewide pension systems.

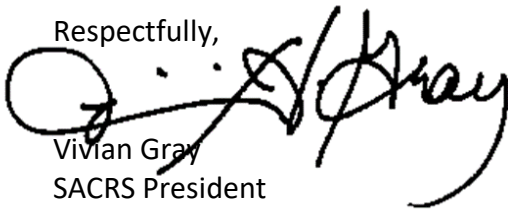
The reality is that the CERL plans collectively have minimal exposure to investments with direct ties to Russia and Belarus but the definition of "active business operations" is sufficiently broad to include any company that has a facility or any personnel in those countries. This would include companies like Amazon, McDonald's and other global enterprises. Divesting from every company with "active business operations" could mean significantly changing the investment mandates given to external investment managers which would override the plenary authority of the CERL Boards in making active investment management decisions.



The humanitarian crisis that is unfolding in Ukraine has already led to unprecedented sanctions on Russia's economy and financial assets tied to Russia. The speed of global reaction to the invasion has resulted in a "de facto divestment" that has rendered the de minimis assets the CERS plans had prior to the invasion worth even less or stranded, with uncertainty over how these positions can be unwound if and when Russian markets re-open.

Prior legislation on other divestment matters have focused on the influence and impact of the statewide retirement systems, inherently recognizing the scale and administrative constraints of local retirement systems. With SB 1328, SACRS requests the same discretion be extended to local retirement boards to determine the most appropriate course to navigate current Russian divestment efforts.

Respectfully,



Vivian Gray
SACRS President

cc: Senator Mike McGuire
Senator Dave Cortese
Consultant Senate Governmental Organization Committee