

Update on HB 2711 (Countries of Concern Act) Implementation

Joint Committee on Pensions, Investments and Benefits

Bruce Fink, CFA, Chief Investment Officer

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Introduction

- HB 2711, also known as the Countries of Concern Act (“Act”), became law on July 1, 2024.
- The Act prohibits the Kansas Public Employees Retirement System (“System”) from making investments in persons or entities “owned or controlled by or subject to the jurisdiction or direction of a country of concern” as the term is defined in the Act. The Act designates six countries as a “Country of Concern”:
 - People's Republic of China, including the Hong Kong special administrative region;
 - Republic of Cuba;
 - Islamic Republic of Iran;
 - Democratic People's Republic of Korea;
 - Russian Federation; and
 - Bolivarian Republic of Venezuela.
- The System is required to divest 50% by or before July 1, 2025, with 100% divestment by or before January 1, 2026.
 - Private market commitments made before July 1, 2024 are not subject to divestment.
- On and after July 1, 2024, the System will be prohibited from making new public or private market investments in entities organized in a Country of Concern.
- The purpose of this presentation is to review the operational and diligence steps taken by the System to address the provisions of the Act.

Implementation of the Countries of Concern Act

- In May 2024, the Board of Trustees adopted language for the System's Statement of Investment Policy, Objectives and Guidelines ("IPS") to incorporate the provisions of the Act.
- Investment staff built new compliance tests at State Street Bank (the System's master custodian) to identify public market trades subject to the Act.
 - These test were in place on July 1, 2024, the effective date of the Act.
 - These tests are applied across all public market portfolios.
- Public market investment managers were notified of the provisions of the Act and the related changes to the System's IPS and have taken steps to comply.
 - There have been no trade violations identified.
- The System's due diligence processes have been augmented to confirm that potential investments are not organized in a country of concern.
 - A statement to that effect is incorporated in the due diligence memorandum produced by staff and by the System's investment consultants, as applicable.
- We are incorporating provisions in documents governing investments, entered into on and after July 1, 2024, that provide recourse for the System if the manager violates the Act.

Countries of Concern Act: Fiscal Year 2024 Update

- The System fully liquidated 12 securities of 10 companies that were found to be subject to divestment under the Act.
 - These securities were acquired prior to the effective date of the Act.
- The securities divested were in Hong Kong or China and represented ~\$294.2 million or ~1.0% of the total fund.
 - There are no pending liquidations.
- The System continues to hold 300,377 shares of Norilsk Nickel ADR, a Russian company that stopped trading due to sanctions put in place at the start of the Ukraine war.
 - These sanctions were in place prior to the effective date of the Act.
 - These shares remain subject to sanctions and are not trading. They are currently valued at zero.
- Investment staff continues to monitor trading and investment activity through daily compliance reporting and regularly scheduled manager meetings.