



Consent

Agenda Item 3b

December 14, 2015

ITEM NAME: Report to the California Legislature – Iran and Sudan

PROGRAM: Investment Compliance & Operational Risk

ITEM TYPE: Total Fund – Consent Action

RECOMMENDATION

That the Investment Committee (Committee) approve the transmittal of the 2015 annual Iran- and Sudan-related reports to the California Legislature required by State laws.

EXECUTIVE SUMMARY

This agenda item seeks approval for staff to transmit to the California Legislature on or before January 1, 2016:

1. Iran Related Investments – Annual Legislative Report (Attachment 1)
2. Sudan Related Investments – Annual Legislative Report (Attachment 2)

STRATEGIC PLAN

This agenda item oversees statutory requirements and does not directly support the CalPERS Strategic Plan.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief III (Investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries). Investment Belief X (Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives) is also supported as CalPERS must consider the government agency constraints under which it operates.

BACKGROUND

CalPERS is required to comply with California laws with respect to portfolio holdings in companies engaged in specified business operations in Iran and Sudan.

In 2007, Assembly Bill 221 (California Public Divest from Iran Act) and Assembly Bill 2941 (California Public Divest from Sudan Act) were enacted to prohibit CalPERS and CalSTRS from investing in companies with specified business activities in Iran and Sudan, respectively, subject to the fiduciary duties of the Board as described in Section 17 of Article XVI of the California Constitution. In October 2011, Assembly Bill 1151 was passed, amending AB 221 to its current form.

The Acts prohibit the Board from investing public employee retirement funds in companies having specified ties to Iran and Sudan, respectively. Each Act requires the Board to identify the companies that fit the specified criteria, notify them that they have been so identified, and enter into a 90-day period of engagement to encourage such companies to sever their ties with Iran or Sudan, as the case may be. If a company fails to make sufficient progress in this regard, then, to the extent consistent with the Board's fiduciary duties, CalPERS (a) must cease all future investments with such companies and (b) has 18 months in which to divest any existing holdings. Finally, each Act requires CalPERS to present its findings annually in open session to the Board (with notification to interested parties) and transmit a report thereon to the California Legislature by December 31.

ANALYSIS

CalPERS has complied with the relevant requirements of the California Public Divest from Iran Act and the California Public Divest from Sudan Act throughout the reporting period. More details regarding the requirements and related implementation activities are included in Attachments 1 and 2.

BUDGET AND FISCAL IMPACTS

The budget and fiscal impact of filing the two reports is negligible.

BENEFITS/RISKS

This item has significant compliance implications in terms of the divestment and reporting provisions outlined in each Act. Failure to comply with the statutory requirements of either Act could result in legal and reputational risk.

ATTACHMENTS

Attachment 1 – California Public Divest from Iran Act Annual Legislative Report

Attachment 2 – California Public Divest from Sudan Act Annual Legislative Report

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