

1 **ESSB 5192** - H COMM AMD

2 By Committee on Financial Institutions & Insurance

3 Strike everything after the enacting clause and insert the
4 following:

5 NEW SECTION. **Sec. 1.** The outlook for the state's
6 pension system is dramatically affected by the performance of the
7 state investment board. The recent performance of all pension
8 funds throughout the country has resulted in a greater attention to
9 investment decisions.

10 The legislature has determined that additional fiduciary roles
11 and responsibilities are appropriate for members of the investment
12 board who are, solely in their board capacity, fiduciary trustees
13 for fund beneficiaries.

14 The legislature also finds that an examination of in-state
15 investment opportunities within the context of the state investment
16 board's overall investment strategy for diversification and
17 maximizing returns is an appropriate role of the state investment
18 board.

19 NEW SECTION. **Sec. 2.** (1) Members of the state investment
20 board, solely when acting in their board capacity, shall discharge
21 their fiduciary duty to invest and to manage public and retirement
22 funds with the highest standard of professional conduct for the
23 exclusive benefit of fund beneficiaries. Consistent with this
24 responsibility the board's investments are made in accordance with
25 RCW 43.33A.110 mandating investment aimed at maximizing return at
26 a prudent level of risk, and RCW 43.33A.140 establishing duties of
27 diversification and care. Subject to these standards, the board
28 shall examine economically targeted investments in Washington as
29 potential investments for funds managed by the board. Economically
30 targeted investments shall be made in accordance with the board's
31 asset allocation policies and included within existing asset

1 categories while conforming to all of the laws, policies, and
2 procedures governing the state investment board.

3 (2) Subject to available resources, the board will establish a
4 program to facilitate exchange of information between its private
5 equity general partners and appropriate parties with knowledge of
6 quality, economically targeted investment opportunities. This
7 program will also include a clearinghouse function aimed at
8 receiving information on potential economically targeted
9 investments.

10 (3) The state investment board will provide a report on
11 activity relating to economically targeted investments at least
12 annually. This report will be distributed to the members of the
13 state investment board, organizations representing board
14 beneficiaries, the legislature, and the governor and may be
15 included in the report provided for in RCW 43.33A.150.

16 (4) As used in this section, "economically targeted
17 investments" means investments having the primary objective of
18 investment return to funds managed by the board and the collateral
19 objective of assisting the regional economy and the economic well-
20 being of the state of Washington, its localities, and residents.

21 **Sec. 3.** RCW 43.33A.020 and 2002 c 303 s 1 are each amended to
22 read as follows:

23 There is hereby created the state investment board to consist
24 of fifteen members to be appointed as provided in this section.

25 ~~((1) One member who is an active member of the public
26 employees' retirement system and has been an active member for at
27 least five years. This member shall be appointed by the governor,
28 subject to confirmation by the senate, from a list of nominations
29 submitted by organizations representing active members of the
30 system. The initial term of appointment shall be one year.~~

31 ~~(2) One member who is an active member of the law enforcement
32 officers' and fire fighters' retirement system and has been an
33 active member for at least five years. This member shall be
34 appointed by the governor, subject to confirmation by the senate,
35 from a list of nominations submitted by organizations representing
36 active members of the system. The initial term of appointment
37 shall be two years.~~

1 ~~(3) One member who is an active member of the teachers'~~
2 ~~retirement system and has been an active member for at least five~~
3 ~~years. This member shall be appointed by the superintendent of~~
4 ~~public instruction subject to confirmation by the senate. The~~
5 ~~initial term of appointment shall be three years.~~

6 ~~(4) The state treasurer or the assistant state treasurer if~~
7 ~~designated by the state treasurer.~~

8 ~~(5) A member of the state house of representatives. This~~
9 ~~member shall be appointed by the speaker of the house of~~
10 ~~representatives.~~

11 ~~(6) A member of the state senate. This member shall be~~
12 ~~appointed by the president of the senate.~~

13 ~~(7) One member who is a retired member of a state retirement~~
14 ~~system shall be appointed by the governor, subject to confirmation~~
15 ~~by the senate. The initial term of appointment shall be three~~
16 ~~years.~~

17 ~~(8) The director of the department of labor and industries.~~

18 ~~(9) The director of the department of retirement systems.~~

19 ~~(10) One member who is an active member of the school~~
20 ~~employees' retirement system and has at least five years of service~~
21 ~~credit. This member shall be appointed by the superintendent of~~
22 ~~public instruction subject to confirmation by the senate. The~~
23 ~~initial term of appointment shall be three years.~~

24 ~~(11) Five nonvoting members appointed by the state investment~~
25 ~~board who are considered experienced and qualified in the field of~~
26 ~~investments.~~

27 ~~The legislative members shall serve terms of two years. The~~
28 ~~initial legislative members appointed to the board shall be~~
29 ~~appointed no sooner than January 10, 1983. The position of a~~
30 ~~legislative member on the board shall become vacant at the end of~~
31 ~~that member's term on the board or whenever the member ceases to be~~
32 ~~a member of the senate or house of representatives from which the~~
33 ~~member was appointed.~~

34 ~~After the initial term of appointment, all other members of the~~
35 ~~state investment board, except ex officio members, shall serve~~
36 ~~terms of three years and shall hold office until successors are~~
37 ~~appointed. Members' terms, except for ex officio members, shall~~
38 ~~commence on January 1 of the year in which the appointments are~~
39 ~~made.~~

1 Members may be reappointed for additional terms. Appointments
2 for vacancies shall be made for the unexpired terms in the same
3 manner as the original appointments. Any member may be removed
4 from the board for cause by the member's respective appointing
5 authority.))

6 (1) The state treasurer or his or her designee is a member of
7 the state investment board and serves as a fiduciary trustee. As
8 a board member, the state treasurer serves as one of the five
9 members of the audit committee. As a fiduciary trustee, this
10 member will use his or her expertise in financial markets to assist
11 the investment review process for the state investment board and
12 will also assist in identifying economically targeted investment
13 opportunities that conform to the requirements of section 2 of this
14 act.

15 (2) One member of the state investment board is an active
16 member of the public employees' retirement system and has been an
17 active member for at least five years. This member is appointed by
18 the governor, subject to confirmation by the senate, from a list of
19 nominations submitted by organizations representing active members
20 of the system and serves as a fiduciary trustee. As a fiduciary
21 trustee, this member will use his or her position as a
22 representative of pension fund beneficiaries to work with state
23 investment board staff to participate in an outreach program to the
24 public employees' retirement system beneficiaries. This member
25 will also assist in identifying issues relevant to public employees
26 for which the state investment board is accountable, and will
27 report to the board on such issues as necessary.

28 (3) One member of the state investment board is an active
29 member of the law enforcement officers' and fire fighters'
30 retirement system and has been an active member for at least five
31 years. This member is appointed by the governor, subject to
32 confirmation by the senate, from a list of nominations submitted by
33 organizations representing active members of the system and serves
34 as a fiduciary trustee. As a fiduciary trustee, this member will
35 use his or her position as a representative of pension fund
36 beneficiaries to work with state investment board staff to
37 participate in an outreach program to the law enforcement officers'
38 and fire fighters' retirement system beneficiaries. This member
39 will also assist in identifying issues relevant to public employees

1 for which the state investment board is accountable, and will
2 report to the board on such issues as necessary.

3 (4) One member of the state investment board is an active
4 member of the teachers' retirement system and has been an active
5 member for at least five years. This member is appointed by the
6 superintendent of public instruction subject to confirmation by the
7 senate and serves as a fiduciary trustee. As a fiduciary trustee,
8 this member will use his or her position as a representative of
9 pension fund beneficiaries to work with state investment board
10 staff to participate in an outreach program to the teachers'
11 retirement system beneficiaries. This member will also assist in
12 identifying issues relevant to public employees for which the state
13 investment board is accountable, and will report to the board on
14 such issues as necessary.

15 (5) One member of the state investment board is an active
16 member of the school employees' retirement system and has at least
17 five years of service credit. This member is appointed by the
18 superintendent of public instruction subject to confirmation by the
19 senate and serves as a fiduciary trustee. As a fiduciary trustee,
20 this member will use his or her position as a representative of
21 pension fund beneficiaries to work with state investment board
22 staff to participate in an outreach program to the school
23 employees' retirement system beneficiaries. This member will also
24 assist in identifying issues relevant to public employees for which
25 the state investment board is accountable, and will report to the
26 board on such issues as necessary.

27 (6) One member of the state investment board is a retired
28 member of a state retirement system and is appointed by the
29 governor subject to confirmation by the senate and serves as a
30 fiduciary trustee. As a fiduciary trustee, this member will use
31 his or her position as a representative of pension fund
32 beneficiaries to work with state investment board staff to
33 participate in an outreach program to retired beneficiaries. This
34 member will also assist in identifying issues relevant to public
35 employee retirees for which the state investment board is
36 accountable, and will report to the board on such issues as
37 necessary.

1 (7) The director of labor and industries is a member of the
2 state investment board, and serves as a fiduciary trustee. As a
3 fiduciary trustee, this member will work with state investment
4 board staff to implement a process for reporting state investment
5 board earnings and investment objectives to those businesses and
6 labor organizations in Washington state that provide the funding
7 for the programs administered by the department of labor and
8 industries which are supported by state investment board earnings.

9 (8) The director of retirement systems is a member of the state
10 investment board and serves as a fiduciary trustee. As a fiduciary
11 trustee, this member will implement a process of reporting state
12 investment board earnings to the constituents of the retirement
13 systems.

14 (9) One member of the state investment board is a member of the
15 state house of representatives and serves as a fiduciary trustee.
16 This member is appointed by the speaker of the house of
17 representatives. As a fiduciary trustee, this member is
18 responsible for reporting to the relevant committees in the house
19 of representatives on the status of the funds for which the state
20 investment board is responsible and accountable.

21 (10) One member of the state investment board is a member of
22 the state senate and serves as a fiduciary trustee. This member is
23 appointed by the president of the senate. As a fiduciary trustee,
24 this member is responsible for reporting to the relevant committees
25 in the senate on the status of the funds for which the state
26 investment board is responsible and accountable.

27 (11) Expertise in investment decisions is sought by the
28 inclusion of five nonvoting members appointed by the state
29 investment board after nomination by the audit committee, who are
30 considered experienced and qualified in the field of investments.
31 At least one of the nonvoting members must have experience in
32 investing in companies, funds, or other investments that are
33 located in, have a substantial employment base in, or make a
34 significant economic contribution to, Washington state.

35 (12) All members of the state investment board, except
36 nonvoting members, legislative members, and members serving by
37 virtue of the position they hold, serve terms of three years and
38 hold office until successors are appointed. Members' terms, except

1 for nonvoting members, commence on January 1st of the year in which
2 the appointments are made.

3 Members may be reappointed for additional terms. Appointments
4 for vacancies are made for the unexpired terms in the same manner
5 as the original appointments. Any voting member may be removed
6 from the state investment board for cause by the member's
7 respective appointing authority.

8 The five nonvoting members are appointed by the state
9 investment board for a two-year term and may be appointed for
10 additional terms. Nonvoting members may be removed by the board for
11 cause.

12 The legislative members serve terms of two years. The position
13 of a legislative member on the state investment board becomes
14 vacant at the end of that member's term on the state investment
15 board or whenever the member ceases to be a member of the senate or
16 house of representatives from which the member was appointed.

17 NEW SECTION. Sec. 4. There is hereby created an audit
18 committee of the state investment board consisting of not more than
19 five voting members of the board. The audit committee provides
20 oversight of audit activities, develops and monitors the code of
21 conduct for the board, and also deals with corporate governance
22 policies and issues. The audit committee members are appointed by
23 the state investment board chairperson. At least one member of the
24 audit committee shall be a representative of one of the retirement
25 system beneficiaries.

26 NEW SECTION. Sec. 5 Sections 2 and 4 of this act are each
27 added to chapter 43.33A RCW."

28 Correct the title.

EFFECT: The striking amendment has the following effects:

- Eliminates the technology investment account and replaces it with the requirement that the board examine economically targeted investments in Washington as potential investments for state trust funds. The goal of this requirement is to both obtain maximum investment return while at the same time of assisting regional economies and generally serving the economic well-being of this state.

- Require that the board create a program to facilitate the exchange of information between its private equity general partners and appropriate parties with knowledge of potential economically targeted investment opportunities.
- Eliminate the Audit and Accountability Committee and replace it with an Audit Committee, whose purpose is to oversee audit activities, develop and monitor the board's code of conduct, and deal with corporate governance issues.
- Eliminate the two new voting members added to the board by the bill, thus leaving the board with fifteen members.
- Eliminate the involvement of the Department of Community, Trade, and Economic Development in the investment activities of the board.
- Define additional fiduciary roles and responsibilities for board members.
- Allow nonvoting members to be appointed for two-year terms and to be removed from the board only for cause.
- Delete the section changing the quorum requirement to a majority of the voting members, thus retaining the current rule that a quorum consists of six members.
- Delete the emergency clause that would make the bill effective immediately upon passage by the legislature.
- Require the director of labor and industries to report to labor regarding investment earnings and investment objectives.