Subject: Tony Ligi shared the folder "Shaw Khalia" with you
Date: Monday, December 18, 2023 at 2:55:24 PM Eastern Standard Time
From: Tony Ligi
To: Domonique Dickerson, Drew Fontenot, Dylan Gill, Emma Joubert, Tony Ligi, AO Records
Attachments: AttachedImage, AttachedImage, AttachedImage, AttachedImage

EXTERNAL SENDER

Tony Ligi shared a folder with you

Ms. Shaw
Attached please find responses to your public records requests respectively dated 1/23/23 and 2/17/23.
Tony Ligi
Executive Counsel'
Louisiana Department of Treasury

Shaw Khalia

This link will work for anyone.

Open

Microsoft

Privacy Statement

From: TLigi@treasury.la.gov <TLigi@treasury.la.gov> on behalf of Tony Ligi <TLigi@treasury.la.gov>
Sent: Wednesday, February 16, 2022 10:56 PM EST
To: John Schroder <JSchroder@treasury.la.gov>; John Broussard <JBroussard@treasury.la.gov>
CC: Desie Thymes Mack <dtmack@treasury.la.gov>
Subject: Article from Barron's re BalckRock / Pension funds

BlackRock's ESG Strategy Plays Politics with Public Pensions

By Christopher Bancroft Burnham
Updated May 28, 2020 8:22 am ET / Original May 28, 2020 6:26 am ET
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Photograph by Andrew Burton/Getty Images

In a relatively short time, BlackRock has become the largest asset manager in the world. The firm built its impressive franchise as a low-fee, efficient provider of index portfolios. Now, however, Larry Fink, the mortgage-bond trader who founded the firm in 1988 and has been CEO ever since, wants to take BlackRock in a different direction. Why? And what does the shift mean for clients, especially pension funds?

BlackRock held its annual shareholders' meeting last week and emphasized the new role of sustainability standards in its letters to clients and CEOs. On March 31, 2020, even after a rough month in the markets caused by Covid-19, BlackRock was still managing nearly $6.5 trillion in stocks, bonds, and cash—an almost 15-fold increase over 15 years. The firm's index portfolios, including its iShares exchange-traded funds, comprise 70% of its long-term holdings. The firm is the second- or third-largest owner of stock in Microsoft, Apple, Amazon, and Procter & Gamble, and among the top five in nearly every large U.S. company.

Despite this successful formula, Fink announced in January that the firm was suddenly changing its strategy. "Sustainability" would become "BlackRock's new standard for investing." The firm defines sustainability as "understanding and incorporating environmental, social and governance (ESG) factors into investment analysis and decision-making."

Two years earlier, Fink had drawn wide attention with a letter telling businesses they have to do more than just make profits. "Society is demanding that companies, both public and private, serve a social purpose," he wrote.

While that letter was dominated by bromides, the new one had surprising specifics. BlackRock is divesting from some coal companies. It will make "sustainable funds," currently a minuscule proportion of the firm's assets, "the standard building blocks in these solutions wherever possible, consistent with client preferences and any applicable regulations" and its analysts will now consider "ESG risk with the same rigor" they use in analyzing "traditional measures such as credit and liquidity risk."

BlackRock's foundational investment philosophy, rooted in index portfolios, had previously been based on the efficient market hypothesis, which holds that today's share price reflects all possible information. Stock prices move according to what Princeton's Burton Malkiel famously called a "random walk." As a result, investors can do better by investing in low-cost, passive portfolios than in stocks that they or others choose because they think shares will appreciate. A study conducted last year by the Institute for Pension Fund Integrity looked at the performance of state pension funds, and determined that only 17 of the 50 states would have outperformed a portfolio made up of 50% in stock index funds and 50% in bond index funds. In other words, over 66% of all state pension funds could not beat a simple benchmark. BlackRock's reputation derives not from its ability to pick undervalued stocks or see into the future but from its skill at offering low-cost index investments efficiently. But there's one problem. Index investing has become a commodity business, with competitors offering undifferentiated funds at wafer-thin margins, and for pension funds, sometimes for free through their custodian.

Investors that follow the efficient market hypothesis and random walk philosophy of investing do not give a hoot about the policies and practices of individual companies as all information is priced into the market almost immediately. It appears that Fink is now rejecting this old credo by assuming that the prices of shares do not properly reflect the threat of climate change, and thus, BlackRock will now make investments that correct for this "mistake."

No doubt Fink and his colleagues believe in the critical importance of a sustainability screen in their active management, but that explanation is insufficient to explain a change of this magnitude. Instead, the driving force may be simple economics. BlackRock can charge higher fees with both actively and passively managed ESG funds than it can with conventional index funds.

For example, BlackRock's iShares Global Clean Energy ETF, one of the largest ESG funds in the world, carries an expense ratio of 0.46%. Compare that with iShares Core S&P 500 ETF at 0.04%. A shift to ESG investing would both allow BlackRock to charge higher fees and, from a marketing perspective, distinguish it from competitors like Vanguard, State Street, and Fidelity.
The shift may be BlackRock's only palatable choice. Right now, the large indexers are in a race to the bottom. BlackRock's quarterly earnings fell for four quarters in a row on a year-vs.-year basis between the fourth quarter of 2018 and the third quarter of 2019.
BlackRock is making a big gamble. ESG investing has its adherents, but it's doubtful that it can outperform the standard indexes on which BlackRock has relied for decades. For example, despite the recent decline in oil prices, for the five years ending May 15, BlackRock's S&P 500 Growth ETF beat the Clean Energy ETF by an annual average of more than 10 percentage points.
Research has consistently indicated that conventional index portfolios perform better than ESG portfolios, partly because ESG portfolios charge higher fees. A Pacific Research Institute study last year, for example, found that for 18 public ESG funds with a 10-year track record, "a $10,000 ESG portfolio would be 43.9% smaller compared to an investment in a broader, S&P 500 index fund." Only two of the ESG funds would have beat the S&P fund over a 10-year period.
In a 2016 paper, Alicia Munnell, a former Treasury Department official under President Clinton, and now director of the Center for Retirement Research at Boston College, and her colleague Anqi Chen, a researcher at the center,concluded: "While social investing raises complex issues, public pension funds are not suited for this activity. The effectiveness of social investing is limited, and it distracts plan sponsors from the primary purpose of pension funds—providing retirement security for their employees."
By contrast, Fink is pursuing a course which, while possibly more profitable for BlackRock, puts public pension funds and other client portfolio performance in jeopardy by opening the door to politics as part of pension portfolio management. I have nothing against companies embracing ESG, and in fact, virtually all the leaders and boards of Fortune 500 companies now embrace ESG principles—many for decades. Rather, what I object to is Fink opening the door for politicians to play politics with public pensions rather than adhere to a strict fiduciary standard of the highest returns at a reasonable risk.

If individual investors want to choose social investments, they are certainly welcome, but pension plans shouldn't be making social and political decisions for their millions of members. Instead, if they are wise, they will pursue the low-fee, index strategy that was the solid foundation on which BlackRock was built, and in doing so, will immediately be in the top third of all state pension plans by performance.

TONY LIGI
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From: ECowser@treasury.la.gov <ECowser@treasury.la.gov> on behalf of Erin Cowser <ECowser@treasury.la.gov>
Sent: Monday, August 15, 2022 4:28 PM EDT
To: John Schroder <JSchroder@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>; Desie Thymes Mack <dtmack@treasury.la.gov>; Jasmine Tricou <JTricou@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; John Broussard <JBroussard@treasury.la.gov>; Lela Folse <LFolse@treasury.la.gov>; Kathy Stuart <KStuart@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>
Subject: DRAFT SPEECH for Pontchartrain Club Thurs 08.18
Attachment(s): "08.18.22 SPEECH Pontchartrain Club.docx"

Attached please find the DRAFT SPEECH for the Pontchartrain Club mtg on Thur Aug. 18.

Nancy worked with me to add some more context to your Brian Moynahan quote.J

ERIN M. COWSER
PRIVATE SECRETARY TO THE TREASURER
OFFICE OF STATE TREASURER JOHN M. SCHRODER
CELL: (225) 432-9363

Pontchartrain Club meeting

Thurs, Aug. 18
Gallagher's in Mandeville
Event Start/End: 6:30-8 p.m.
You arrive: 6:45 p.m.
You speak: 7 p.m.
You can depart: anytime thereafter
Drinks: **6:30 p.m.**

- **It's always nice to be back in my home parish. And it certainly doesn't hurt that it's at one of Pat's restaurants! Thank you so much for the invitation to join y'all tonight.**

- **I was told I could talk about anything I'd like. Soooooo….I could go on and on about my grandkids – I mean – I'm not biased or anything but my grandchildren are brilliant. My grandson caught his first fish over the weekend. I'm pretty sure he might have the makings of a professional angler.**

All kidding aside, when he said his prayers the night before, he asked to catch a fish and sure enough, he did! How amazing is that?

- **I'm a religious man. For those who don't know me yet, I have a background in the military, law enforcement and I'm a small business owner along with my wife of 37 years, Ellie, mostly in the real estate, homebuilding and development industries. I represented St. Tammany and parts of Tangipahoa while serving 9 ½ years as a State Representative. And then I was elected Louisiana State Treasurer in 2017 and re-elected in 2019.**

- **I'm over Cash Management for the state and we manage a cash flow of $64.8 billion with about $16 billion in trust funds. I have an excellent team that**

oversees investments on behalf of Louisiana and her citizens. We handle the state's finances.

- **Tonight, I wanted to talk with you all about ESG.**
- **Off the bat - does anybody know what that is?**
- **Environmental, Social and Governance.**
- **ESG has become a buzzword – partly because it's much easier to say than Environmental, Social and Governance – but mainly because ESG is being used by some national financial institutions to force their beliefs on states. These institutions are wielding ESG factors as weapons in financial ratings methods.**
- **Last I checked, financial ratings are based on the ability to pay debts. Louisiana has never once**

defaulted on a debt during my tenure as Treasurer. In fact, we have laws and the Constitution that REQUIRE us to pay our debts. Louisiana should be a shoe-in for positive ratings, right? I mean - We have assurances that debts will be paid and a history of paid debts, right?!?

- **Nope. Not when Corporate America corrupts the financial ratings process by adding ESG factors into the mix.**

- **These new "factors" find Louisiana lacking because we have a robust energy, oil & gas industry. Think about it. Companies like Hornbeck Marine from right down the road get a bad rap in their eyes. It's ridiculous.**

- **ESG factors are warping the financial area. They do not belong there.**

  - **These are topics that should be addressed through Legislative action – not by way of financial ratings. They're trying to force changes on states that didn't pan out at the ballot box. Louisiana did not elect people who want to cripple our energy sector. They can't get it done that way so Corporate America is trying to take up the charge.**

  - **Here's a quote I like to share from Brian Moynihan, Chairman/CEO Bank of America**

  - ***"If you look at the amount of money needed to make the fundamental changes that we have to make in the environment or human capital, it far***

exceeds the ability of any government to deal with it."

- **Next he says that *"Governments are running big deficits and their money is pretty well accounted for."***

- **And, then he says the amount needed to make the changes they want far exceeds what can be collected from charity contributions.**

- **"So who can do it?" he asks.**

- **Government can't do it, non-profits can't do it – so here's the kicker. Listen to the end of his quote:**

- ***"Who can do it? It will have to be the big companies that align their whole business system*** *against the goals that the world wants.”*

- **[TONGUE IN CHEEK] Isn’t that just great? Just what we want as citizens, right? Big business forcing its will in ways that go against what the world wants.**

- **Now – don’t get me wrong. I am all for coastal conservation. Remember – my grandson is going to be a professional fisherman. Environmental factors are absolutely important to Louisiana.**

- **What I don’t like is being bullied into action through financial means. ESG factors have no place in the financial workings of the state. Period.**

- **It goes against logic. Would Louisiana want to hurts its own energy industry? Would we want to**

do things that will result in layoffs and hits to our own economy? Absolutely not! So stop telling us we have to in order to get positive ratings for our financial matters.

- **So, what are we doing about it?**

- **First we need to educate people about ESG factors in finances and the harm they will do to Louisiana. - So, again, thank you for the opportunity to be here tonight. ▯**

- **We need to make it known loud and clear in D.C. that Louisiana isn't going to take it lying down. I was recently elected to serve as Chair of the national State Financial Officers Foundation. This is a group of Treasurers from 23 states who feel it's**

time for states to speak up and have more say in federal policymaking. It's a great group of colleagues who together represent $3 TRILLION dollars of money management. That's no spare change. And, we're getting the attention that states deserve. As Chair, I look forward to shining a national spotlight on Louisiana's best financial practices.

- **Which brings me to our next action step. Those best financial practices include divesting state funds from institutions that have imposed ESG factors.**

- **Treasury recently adopted a new policy. It states that we will not engage in investment relationships with any business with policies that, beyond** normal and customary credit and trading practices, endangers jobs of Louisiana residents or the economy of the state in industries such as those related to fossil fuels.

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CC: Nancy Keaton <NKeaton@treasury.la.gov>; John Broussard <JBroussard@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Jasmine Tricou <JTricou@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>
Subject: DRAFT Talking Points for ESG
Attachment(s): "BlackRock ESG TALKING POINTS.docx"

ERIN M. COWSER
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BlackRock ESG TALKING POINTS

- If companies want to make business decisions based on public policy objectives that elected officials are charged with making, then they should not be surprised when elected officials make public policy decisions that are for the wellbeing of all their constituents.

- BlackRock's stated goals are inconsistent with the economic foundation of Louisiana.

- We are already a state facing tremendous economic challenges and BlackRock wants to make those challenges even more difficult.

- Why should they be allowed to profit while advocating for public policy objectives that hurt our state?

- The people of Louisiana are better served by leaders who make decisions based on the good of the state and BlackRock investors would be better served by leaders who make business decisions for the good of business.

What is ESG?

- Way for corporations to push political agendas
- Environmental, Social and Governance

Is ESG bad?

- Bad when it's being forced down throats
- Bad when will cripple fossil fuels
- Bad bc bypasses ballot box
- Bad bc using OUR $ to push THEIR agenda
- Not necessarily bad in concept
    - LA Energy Sector will transform itself
    - Should allow to occur w/business leading
    - NOT when forced to do so

How much have you divested?

- $560 Million to date
- $794 Million by end of the year
- ALL BlackRock Treasury funds

Will this cost LA money?

- No, strategic divestment over time
- ESG funds have been outperformed
- They cost more, deliver less

Why are you doing this?

- Why spend LA $ with company
  that wants to crush our fossil fuel industry?
- Food off tables, $ from pockets and jobs away

Is ESG illegal?

- Legal advisors and experts say YES
- Fiduciary duty - investors' returns
- Putting ESG motivations above
- Violates LA law

Doesn't BlackRock invest in oil & gas?

- Not enough to counter their ESG demands

Why just divesting BlackRock?

Why letter to Fink?

- Boasts about "forcing behaviors"
- Paying "Greeniums"
- Doesn't make financial sense

Why is SFOF involved?

- Affect change collectively
- 23 Treasurers, $3 TRILLION
- Focus on State decision-making

How did you get involved?

- Cut our teeth – 2nd Amend
- SBC – instits trying to strip rights

What else can be done about ESG?

- Educate people on what it is
- Hosted ESG Summit for Legislators

From: ECowser@treasury.la.gov <ECowser@treasury.la.gov>
Sent: Tuesday, October 04, 2022 4:12 PM EDT
To: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; dtmack@treasury.la.gov <dtmack@treasury.la.gov>
CC: NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>; TLigi@treasury.la.gov <TLigi@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>; JTricou@treasury.la.gov <JTricou@treasury.la.gov>; PMatassa@treasury.la.gov <PMatassa@treasury.la.gov>
Subject: DRAFT Talking Points for ESG
Attachment(s): "BlackRock ESG TALKING POINTS.docx"

ERIN M. COWSER
PRIVATE SECRETARY TO THE TREASURER
OFFICE OF STATE TREASURER JOHN M. SCHRODER
CELL: (225) 432-9363

BlackRock ESG TALKING POINTS

- If companies want to make business decisions based on public policy objectives that elected officials are charged with making, then they should not be surprised when elected officials make public policy decisions that are for the wellbeing of all their constituents.

- BlackRock's stated goals are inconsistent with the economic foundation of Louisiana.

- We are already a state facing tremendous economic challenges and BlackRock wants to make those challenges even more difficult.

- Why should they be allowed to profit while advocating for public policy objectives that hurt our state?

- The people of Louisiana are better served by leaders who make decisions based on the good of the state and BlackRock investors would be better served by leaders who make business decisions for the good of business.

What is ESG?

- Way for corporations to push political agendas
- Environmental, Social and Governance

Is ESG bad?

- Bad when it's being forced down throats
- Bad when will cripple fossil fuels
- Bad bc bypasses ballot box
- Bad bc using OUR $ to push THEIR agenda
- Not necessarily bad in concept
  - LA Energy Sector will transform itself
  - Should allow to occur w/business leading
  - NOT when forced to do so

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- $794 Million by end of the year
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Sent: Tuesday, October 04, 2022 11:45 AM EDT
To: NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>; TLigi@treasury.la.gov <TLigi@treasury.la.gov>; JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>; dtmack@treasury.la.gov <dtmack@treasury.la.gov>; JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; PMatassa@treasury.la.gov <PMatassa@treasury.la.gov>; RFree@treasury.la.gov <RFree@treasury.la.gov>; JTricou@treasury.la.gov <JTricou@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>; KStuart@treasury.la.gov <KStuart@treasury.la.gov>
Subject: FINAL BlackRock letter
Attachment(s): "LA Treasurer Schroder Letter to Fink.pdf"

Making sure everyone has a copy of the final version.

ERIN M. COWSER
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OFFICE OF STATE TREASURER JOHN M. SCHRODER
CELL: (225) 432-9363

JOHN M. SCHRODER
LOUISIANA STATE TREASURER

(225) 342-0010
www.latreasury.com

P.O. Box 44154
Baton Rouge, LA 70804

October 4, 2022

Mr. Laurence D. Fink
CEO
BlackRock, Inc.
55 East 52nd Street
New York, NY 10055

Dear Mr. Fink:

I write today on behalf of the hardworking citizens of the great state of Louisiana. Thank you for the opportunity to visit with members of your team at the National Association of State Treasurers (NAST) conference. While I appreciate the meeting and look forward to further discussion, I found that the statements your representatives made contradicted most of the public messaging I have read in your annual letters to CEOs or heard you say in the media.

Your blatantly anti-fossil fuel policies would destroy Louisiana's economy.

Therefore, Louisiana Treasury will liquidate all BlackRock investments by the end of 2022. To date we have divested $560 million. We are strategically divesting over a period of time so state money is not lost to the detriment of our citizens. Once complete, this divestment will reflect $794 million no longer entangled in BlackRock money market funds, mutual funds or exchange-traded funds (ETFs) holdings.

This divestment is necessary to protect Louisiana from actions and policies that would actively seek to hamstring our fossil fuel sector. In my opinion, your support of ESG investing is inconsistent with the best economic interests and values of Louisiana. I cannot support an institution that would deny our state the benefit of one of its most robust assets. Simply put, we cannot be party to the crippling of our own economy.

In addition, according to my legal counsel, Environmental, Social and Governance (ESG) investing is contrary to Louisiana law on fiduciary duties, which requires a sole focus on financial returns for the beneficiaries of state funds. Focusing on ESG's political and social goals or placing those goals above the duty to enhance investors' returns is unacceptable under Louisiana law. A letter signed by 19 state attorneys general sent to you recently emphasized this same point.

I fully realize, as your representatives noted during our recent meeting, that BlackRock currently invests in oil and gas companies. Nonetheless, your consistent public messaging has made very clear what BlackRock is demanding from fossil fuel company CEOs and every other company they invest in.

BlackRock has been a champion for ESG investing. Your 2021 letter to CEOs clearly specified that BlackRock's goal is an economy "that emits no more carbon dioxide than it removes from the atmosphere by 2050," which you acknowledge will require "a transformation of the entire economy." You call for a "transformation" of our entire economy that will not be made through a democratic process. Instead you talked about how,"[b]ehaviors are going to have to change and this is one thing we are asking companies. You have to force behaviors. And at Blackrock, we are forcing behaviors." So much for democracy.

You have admitted that your ESG agenda of forcing behaviors will not increase investor returns. Your 2022 letter to CEOs stated plainly that "We need to be honest about the fact that green products often come at a higher cost." High cost/low return environmental policies will reduce a company's profits...and investors' returns.

BlackRock applies this model to its ESG products, exploiting investor's social conscience to extract higher fees. A recent study of U.S. fund fees referred to investors in so-called sustainable funds paying "greeniums" compared to conventional funds.

Then there is the matter of returns. Recently Blackrock set a record for "the largest amount of money lost by a single firm over a six-month period" having "lost $1.7 trillion of clients' money," associated with ESG accounts, according to a July 20, 2022 Bloomberg article titled "BlackRock Is Breaking the Wrong Kind of Records." Such huge losses would seem to indicate that BlackRock is either not focused on investor returns or that its ESG investment strategy is flawed. Neither bodes well for investors.

Under Louisiana law, investors' returns take precedence.

I'm convinced that ESG investing is more than bad business; it's a threat to our founding principles: democracy, economic freedom, and individual liberty. It threatens our democracy, bypasses the ballot box and allows large investment firms to push political agendas. It threatens our economic freedom because these firms use their massive shareholdings to compel CEOs to put political motivations above a company's profits and investors' returns. Finally, it threatens our personal liberty because these firms are using our money to push their agendas contrary to the best interests of the people whose money they are using! There is a difference between offering an ESG investment option for those investors so inclined, and using other peoples' non-ESG investments to promote ESG shareholder initiatives.

As State Treasurer, I oversee $64.8 billion in cash flow and $16 billion in trust funds on behalf of the citizens of Louisiana. I refuse to invest a penny of our state's funds with a company that would take food off tables, money out of pockets and jobs away from hardworking Louisianans. My top priority is the monetary best interests of Louisiana's citizens and the funds I am responsible for investing on their behalf. This requires responsible, financially-sound decision making.

The investment firms we utilize must practice that same fiduciary duty to make their clients' financial success their paramount priority rather than political and social agendas embodied in ESG investing. Period.

Sincerely,

John M. Schroder

John M. Schroder
State Treasurer

JMS/ec

From: ECowser@treasury.la.gov <ECowser@treasury.la.gov> on behalf of Erin Cowser <ECowser@treasury.la.gov>
Sent: Tuesday, October 04, 2022 11:45 AM EDT
To: Nancy Keaton <NKeaton@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>; John Broussard <JBroussard@treasury.la.gov>; Desie Thymes Mack <dtmack@treasury.la.gov>; John Schroder <JSchroder@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>; Renee Free <RFree@treasury.la.gov>; Jasmine Tricou <JTricou@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Kathy Stuart <KStuart@treasury.la.gov>
Subject: FINAL BlackRock letter
Attachment(s): "LA Treasurer Schroder Letter to Fink.pdf"

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Sincerely,

John M. Schroder
State Treasurer

JMS/ec

From: JBroussard@treasury.la.gov <JBroussard@treasury.la.gov> on behalf of John Broussard <JBroussard@treasury.la.gov>
Sent: Friday, December 02, 2022 8:16 AM EST
To: John Schroder <JSchroder@treasury.la.gov>
CC: Desie Thymes Mack <dtmack@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; Lela Folse <LFolse@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>; Erin Cowser <ECowser@treasury.la.gov>
Subject: Florida Divesting $2B in BlackRock's Latest ESG Defection

Florida Divesting $2 Billion in BlackRock's Latest ESG Defection

John Broussard
Assistant State Treasurer
Chief Investment Officer
Louisiana Department of Treasury
(225) 342-0013
jbroussard@treasury.la.gov

From: FundFire [mailto:news@fundfire.com]
Sent: Friday, December 2, 2022 6:47 AM
To: John Broussard <JBroussard@treasury.la.gov>
Subject: Florida Divesting $2B in BlackRock's Latest ESG Defection

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December 2, 2022

Florida Divesting $2B in BlackRock's Latest ESG Defection

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Thornburg Replaces Global Distribution Head

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Investor	Asset Class	Size	Consultant	Activity
CRPTF (Connecticut Retirement Plans and Trust Funds) Dec. 1, 2022	MWDBE, Emerging Manager, Alternatives (Property, Private Equity)	$300.00M	Russell Investments	Hire
IPERS (Iowa Public Employees' Retirement System) Dec. 1, 2022	Alternatives (Real Assets: Active)	$400.00M	Wilshire Associates	Search
CRPTF (Connecticut Retirement Plans and Trust Funds) Nov. 29, 2022	Alternatives (Private Debt)	$300.00M	Russell Investments	Hire
WSIB (Washington State Investment Board) Nov. 29, 2022	Fixed Income (Credit)	$210.00M	Meketa Investment Group	Hire
WSIB (Washington State Investment Board) Nov. 29, 2022	Alternatives (Infrastructure)	$250.00M	Meketa Investment Group	Hire
VRS (Virginia Retirement System) Nov. 23, 2022	Equities (Global)	$370.00M	Verus (previously Wurts & Associates)	Fire

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Sales Director - Large Market Retirement Recordkeeping Plans	T. Rowe Price	San Francisco, CA.
Marketing Compliance Manager	RBC - Royal Bank of Canada	Boston, MA or Minneapolis, MN
Deputy Chief Compliance Officer	Virtus Investment Partners	Hartford, CT Remote
SVP National Account Manager - Alternatives	Franklin Templeton Investments	New York , NY, Baltimore Maryland, Stamford, CT, Short Hills, NJ
Advisor Consultant (Northern California - Cross Channel)	Hartford Funds	Wayne, PA
Institutional Platform Specialist-2202826	Raymond James	FL-St. Petersburg
Senior Sales Representative	Federated Hermes, Inc.	Field office within territory; California preferred
Digital Communications Analyst	Hartford Funds	Wayne, PA.
Director Investment Management Services, East Coast	Emerge Capital Management	Remote, Northeastern US
Business Development Manager, Private Wealth	GW&K Investment Management	New York, NY
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Deputy Chief Compliance Officer	Virtus Investment Partners	Hartford, CT Remote
SVP National Account Manager - Alternatives	Franklin Templeton Investments	New York , NY, Baltimore Maryland, Stamford, CT, Short Hills, NJ
Advisor Consultant (Northern California - Cross Channel)	Hartford Funds	Wayne, PA
Institutional Platform Specialist-2202826	Raymond James	FL-St. Petersburg
Senior Sales Representative	Federated Hermes, Inc.	Field office within territory; California preferred
Digital Communications Analyst	Hartford Funds	Wayne, PA.
Director Investment Management Services, East Coast	Emerge Capital Management	Remote, Northeastern US
Business Development Manager, Private Wealth	GW&K Investment Management	New York, NY
ETF Specialist	Morgan Stanley	New York, NY or Boston, MA

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Sent: Thursday, October 06, 2022 2:45 PM EDT
To: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; dtmack@treasury.la.gov <dtmack@treasury.la.gov>; JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>
Subject: FW: [Louisiana Treasury] Contact - new submission

From: Greg Cameron <reply-to+015851d328a3@crm.wix.com>
Sent: Thursday, October 6, 2022 1:44 PM
To: comments <comments@treasury.la.gov>
Subject: [Louisiana Treasury] Contact - new submission

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Greg Cameron just submitted your form: Contact
onLouisiana Treasury

Message Details:
Dropdown Field:Investments
First Name:Greg
Last Name:Cameron
Email:gregory.cameron61@gmail.com
Phone:13372780564
Message:I read an article on your office divesting from Blackrock over ESG policies. I fully support this. All of my family are voters and need to watch the effects on our 401's. Please hire someone smart enough to see the effects on the 401's to divesting these assets, agreements or contract's and so on. Thanks Greg

---

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To edit your email settings, go to your Inbox on desktop.

From: JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>
Sent: Wednesday, April 13, 2022 8:25 AM EDT
To: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; TLigi@treasury.la.gov <TLigi@treasury.la.gov>; NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; KStuart@treasury.la.gov <KStuart@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>; PMatassa@treasury.la.gov <PMatassa@treasury.la.gov>
Subject: FW: AMY MATHEWS has forwarded you an article.

ALEC Model Legislation: https://alec.org/model-policy/state-government-employee-retirement-protection-act/

Conservative Group Seeks to Block State Pensions from ESG Efforts

By Bridget Hickey April 13, 2022

A conservative association of state legislators has launched a new effort to restrict pensions' consideration of environmental and social issues.

The **American Legislative Exchange Council**, or ALEC, last week released newmodel legislation meant as an outline for state lawmakers seeking to bar plan fiduciaries from sacrificing returns or taking on additional investment risk to promote "non-pecuniary or non-financial social, political or other benefits or goals." The model policies also restrict state pensions from casting proxy votes to further such objectives.

The association writes ready-made legislation to be adopted by state legislators. Between 2010 and 2018, its model bills were introduced 2,900 times across all 50 states and in Congress and had a 21% pass rate, according to ALEC, citing an investigation by USA Today, the Arizona Republic, and the Center for Public Integrity.

Countering ESG investing by state pension funds is a driving factor behind the new proposal, the association's chief economist told theWall Street Journal. He argued that state pensions should be banned from "politically driven" investment strategies. ALEC did not respond to an interview request from FundFire.

The new template does not explicitly bar environmental, social, and governance, or ESG, investing, but states that "environmental, social, corporate governance, or other similarly oriented considerations are pecuniary factors only if they present economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories."

The move comes at a time when many state pension boards are grappling with the material risks posed to their portfolios by environmental and social issues. The**California Public Employees' Retirement System**, for example, has calculated that about 20% of its holdings are exposed to physical or transition risk from climate change. The**New York State Common Retirement Fund** is divesting from many of its fossil fuel holdings, citing risks to the financial performance of these investments as the world transitions to a low-carbon economy.

Pensions are also flexing their shareholder muscles on these issues. The **California State Teachers' Retirement System** is pushing companies for better disclosure of key climate metrics and for greater board diversity, asreported.

Maine, in June, became the first U.S. state to require its pension to divest from fossil fuels.

In contrast, some Republican-leaning states that have made moves to punish managers that eschew oil and gas investments, asreported.

Texas passed a law last year to force all state investment funds, including the**Teacher Retirement System of Texas** and the **Texas Permanent School Fund**, to divest from companies that shun fossil fuel investments, asreported.

The challenge for states that pass these types of "anti-ESG" laws is that the ESG has become more and more integrated into the investment universe, said **Josh Lichtenstein**, an ERISA partner at the law firm**Ropes & Gray**.

Long term, if more states adopt these laws, asset managers will either determine that they want to manage that pool of money by launching standalone products or using separately managed accounts, or some state plans will not have access to the full range of investments available to their peers, he said.

"The biggest question is, are these states going to continue to have access to investments or not?"

ALEC's legislative template shares some common language with a rule from the Trump Administration's**Department of Labor** that bound retirement plan fiduciaries to a "pecuniary" standard when making investment decisions.

When first announced, the DOL said the rule would explicitly bar ESG investing for plans sponsors governed by the**Employee Retirement Income Security Act**, also known as ERISA, which includes corporate pensions. However, the DOL appeared to walk back these plans following industry outcry, and the text of the final rule did not prohibit fiduciaries from considering environmental impact and workplace practices when relevant to the financial analysis, asreported.

The Biden administration stopped enforcing the Trump-era rule and proposed a new rule that would make it easier for corporate pensions to include climate change and other environmental, social and governance factors in their investment lineups and to exercise their shareholder rights "seriously," as reported. The October proposal calls for ERISA fiduciaries to consider climate change and ESG factors as part of their investment evaluations.

The Trump administration's ESG rule caused "real concern" in the industry that U.S. corporate pensions could miss out on the full range of investment products available to international and, particularly, European peers, who demand more ESG exposure, Lichtenstein said.

"I do not believe that we have the tools to cleanly identify and separate out which investments are "politically motivated," and which are not," said**Olivia Mitchell**, an economist at the Wharton School of the **University of Pennsylvania**, who leads the school's pension research council, in an email.

“My research shows that some conclude that taking [ESG] into account enhances investment performance; others argue that it adds alpha potential; and still others argue that it can mitigate portfolio risk. In the case of pension funds, many struggle to find a clear balance between social responsibility and the fiduciary duty to act to maximize return on behalf of their participants,” she said.

Investment industry professionals have been divided on the merits of ESG, with some arguing that the approach adds value, some raising concerns about products that promise more than they deliver, and still others questioning the entire premise. Apoll of FundFire readers last year found that 31% thought ESG strategies were largely delivering what they promised, while 69% said that many offerings on the market today just use ESG as a marketing gimmick.

Jason Hsu, the founder and chief investment officer of China-focused investment boutique**Rayliant Global Advisors**, said by email that he sees “research merit” behind the legislation.

“There is little empirical support that ESG investing would enhance investment return,” he said. “There are a lot of theoretical reasons why ESG investing could negatively impact investment efficiency.”

Some argue that the jury is still out.

"I don't think there's enough evidence out there right now to say whether screening for ESG factors has added value, produced the same or detracted value," said**Russ Kamp**, a managing director at **Ryan ALM**, a fixed income manager that works mostly with defined benefit pensions.

Until there are some specifics, “I think it's tough to make an assessment as to whether or not this legislation is even warranted," he said.

"I think pension America has bigger problems to face as we see this interest rate environment change dramatically from what we've enjoyed over the last 40 years," Kamp added.

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From: JBroussard@treasury.la.gov <JBroussard@treasury.la.gov> on behalf of John Broussard <JBroussard@treasury.la.gov>
Sent: Wednesday, April 13, 2022 8:25 AM EDT
To: John Schroder <JSchroder@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; Kathy Stuart <KStuart@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>
Subject: FW: AMY MATHEWS has forwarded you an article.

ALEC Model Legislation: https://alec.org/model-policy/state-government-employee-retirement-protection-act/

Conservative Group Seeks to Block State Pensions from ESG Efforts

By Bridget Hickey April 13, 2022

A conservative association of state legislators has launched a new effort to restrict pensions' consideration of environmental and social issues.

The **American Legislative Exchange Council**, or ALEC, last week released newmodel legislation meant as an outline for state lawmakers seeking to bar plan fiduciaries from sacrificing returns or taking on additional investment risk to promote "non-pecuniary or non-financial social, political or other benefits or goals." The model policies also restrict state pensions from casting proxy votes to further such objectives.

The association writes ready-made legislation to be adopted by state legislators. Between 2010 and 2018, its model bills were introduced 2,900 times across all 50 states and in Congress and had a 21% pass rate, according to ALEC, citing an investigation by USA Today, the Arizona Republic, and the Center for Public Integrity.

Countering ESG investing by state pension funds is a driving factor behind the new proposal, the association's chief economist told theWall Street Journal. He argued that state pensions should be banned from "politically driven" investment strategies. ALEC did not respond to an interview request from FundFire.

The new template does not explicitly bar environmental, social, and governance, or ESG, investing, but states that "environmental, social, corporate governance, or other similarly oriented considerations are pecuniary factors only if they present economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories."

The move comes at a time when many state pension boards are grappling with the material risks posed to their portfolios by environmental and social issues. The**California Public Employees' Retirement System**, for example, has calculated that about 20% of its holdings are exposed to physical or transition risk from climate change. The**New York State Common Retirement Fund** is divesting from many of its fossil fuel holdings, citing risks to the financial performance of these investments as the world transitions to a low-carbon economy.

Pensions are also flexing their shareholder muscles on these issues. The **California State Teachers' Retirement System** is pushing companies for better disclosure of key climate metrics and for greater board diversity, asreported.

Maine, in June, became the first U.S. state to require its pension to divest from fossil fuels.

In contrast, some Republican-leaning states that have made moves to punish managers that eschew oil and gas investments, asreported.

Texas passed a law last year to force all state investment funds, including the**Teacher Retirement System of Texas** and the **Texas Permanent School Fund**, to divest from companies that shun fossil fuel investments, asreported.

The challenge for states that pass these types of "anti-ESG" laws is that the ESG has become more and more integrated into the investment universe, said **Josh Lichtenstein**, an ERISA partner at the law firm**Ropes & Gray**.

Long term, if more states adopt these laws, asset managers will either determine that they want to manage that pool of money by launching standalone products or using separately managed accounts, or some state plans will not have access to the full range of investments available to their peers, he said.

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From: AMathews@treasury.la.gov <AMathews@treasury.la.gov>
Sent: Friday, April 22, 2022 2:52 PM EDT
To: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>
CC: dtmack@treasury.la.gov <dtmack@treasury.la.gov>; JTricou@treasury.la.gov <JTricou@treasury.la.gov>
Subject: FW: Divesting of LASERS' investment in Chinese surveillance company in KKR Asian Fund III
Attachment(s): "UFCW letter to LASERS 033122.pdf","The Wire - The Surveillance Stake 02202022.pdf"

John & John… I don't see your name on this email… passing it on… Amy

AMY A. MATHEWS
INVESTMENT OFFICER II
OFFICE OF STATE TREASURER JOHN M. SCHRODER
WORK: (225) 342-1598 | FAX: (225)342-9721

From: Courtney Alexander <calexander@ufcw.org>
Sent: Friday, April 22, 2022 1:44 PM
To: william@wkleinpeter.com; sstemplet0310@gmail.com; Thomas.Bickham@la.gov; virginia.burton@cox.net; charlesfcastille@gmail.com; byron.decoteau@la.gov; ternisa.hutchinson@la.gov; amymat221@gmail.com; barbaramcmanus02@gmail.com; Barbara.Goodson@la.gov; devillierp@legis.la.gov; peacockb@legis.la.gov; pricee@legis.la.gov; Amy Mathews <AMathews@treasury.la.gov>
Cc: executivedirector@lasersonline.org; David Young <dyoung@ufcw.org>; Jon Scolnik <jscolnik@ufcw.org>
Subject: Divesting of LASERS' investment in Chinese surveillance company in KKR Asian Fund III

****Verify sender email address/content****

As a Trustee of the Louisiana State Employees Retirement System, we are providing you with a copy of our letter and its attachment to Ms. Cindy Rougeou.

Please contact me if you have any questions.

Courtney Alexander
Research Department
United Food & Commercial Workers International Union
631-834-4681

The Wire China

COVER STORY

The Surveillance Stake

A Chinese company backed by American pension fund money and built by one of world's premier private equity firms publicly touted its ties to China's surveillance apparatus. Is U.S. outbound investment in trouble?

BY KATRINA NORTHROP — FEBRUARY 20, 2022

Illustration by Sam Ward

In March 2020, a town 30 miles northeast of Shanghai's city center was scrambling to respond to the unfolding pandemic. In its effort to control the spread of Covid-19, the town of Shuxin announced that the government would be implementing a new technology in its government buildings: The "CUE All-in-One Machine."

A sleek black device with a camera at eye level, a wide square screen in the middle and two skinny poles connected to wheels at the bottom, the All-in-One Machine uses facial recognition technology and thermal imaging to identify individuals who are walking by and take their temperature. It was produced by Cue Group (https://cue.group/#/), a China-based portfolio company held by one of the world's biggest financial services firms, the American private equity giant KKR & Company.

The CUE All-in-One Machine. *Credit: Cue Group*

But the device's utility goes far beyond pandemic prevention. As Cue's head of new retail products made clear during the 2020 announcement (https://cue.group/#/newsdetails?id=2020_005) in Shuxin, even after Covid-19 subsides, the device could continue to be used to "collect daily passenger flow, record visitors' information, send warnings about abnormal passenger flow, prevent incidents involving many people gathering" and even "recognize specific blacklisted people."

Why would Cue Group, a digital marketing company that New York-based KKR established in 2017, develop a device with such wide ranging surveillance applications? The answer may be linked, in part, to the Ministry of Public Security (MPS), one of the architects of China's domestic surveillance apparatus.

An investigation by *The Wire* has determined that Cue — a relatively young firm backed by American pension fund money and built by one of America's premier private equity firms — promoted a collaboration with a Chinese government agency known for operating the world's most sophisticated surveillance network, all at a time when critics have alleged that this vast spying and monitoring system was being used to engage in human rights abuses (https://www.nytimes.com/interactive/2019/11/16/world/asia/china-xinjiang-documents.html) against Uyghur minorities in the country's far northwest region of Xinjiang.

While it is unclear how the technology developed by American-backed Cue has been deployed in China, both KKR and Cue have scrambled to distance themselves from any association with the surveillance industry, telling *The Wire* this week that Cue remains a digital marketing company. A spokesperson for New York Stock Exchange-listed KKR said the firm was unaware of any collaboration between Cue and China's security forces and noted that KKR had recently reduced its controlling stake in Cue, one of its 16 Chinese portfolio companies, and now has a minority stake. (See KKR's complete statement here (https://drive.google.com/file/d/1BI2Nz2Jihc4EMpmseGFvNcVOCxHSBoWk/view?usp=sharing).)

But Shanghai-based Cue promoted its ties to MPS on its website for nearly two years. This week, after being questioned about its partnership with the Video National Engineering Laboratory Zhuhai Innovation Center (http://nelivaiczh.com.cn/), a government laboratory under MPS, Cue appears to have edited a web page to remove passages touting the collaboration on the All-in-One Machine. In a statement to *The Wire*, Cue said there never was any collaboration with the state lab, even though the Zhuhai lab confirmed in an email to *The Wire* that it had at one time collaborated with Cue and one of its wholly-owned subsidiaries. The lab did not describe the exact nature of the collaboration.

Screenshot from February 10th, 2022

政企同心，携手抗疫 | 开域一体机防疫效果获赞

2020-04-02

为应对新冠疫情，协助政府正常提供公共服务，保障人民出行安全，开域集团与上海市竖新镇政府展开积极合作，率先在镇政府办公大楼部署了开域疫情防控实时监测一体机（以下简称“开域一体机”）。3月25日，镇政府领导和开域集团主要负责人就一体机的防疫部署效果做了实地考察，现场测试了“开域一体机”在无接触快速测温、口罩遮拦下的人脸识别等功能，均取得了突出效果。

开域一体机”是由开域集团、珠海中盾之星科技有限公司与视频国家工程实验室(珠海)创新中心共同紧急研发的防疫产品，具有AI智能无接触式测温以及14天迁徙轨迹追踪两大核心功能。支持20人同时测温，快速有效地筛查区域内的发热个体，锁定同行及周围个体，并及时预警。同时，结合开域数据管理平台海量设备信息及行为信息，发现区域中来自疫区的客流，及时报警，以便迅速反应，有效做好防护措施。

Screenshot from February 17th, 2022

政企同心，携手抗疫 | 开域一体机防疫效果获赞

2020-04-02

为应对新冠疫情，协助政府正常提供公共服务，保障人民出行安全，开域集团与上海市竖新镇政府展开积极合作，率先在镇政府办公大楼部署了开域疫情防控实时监测一体机（以下简称“开域一体机”）。3月25日，镇政府领导和开域集团主要负责人就一体机的防疫部署效果做了实地考察，现场测试了“开域一体机”在无接触快速测温、口罩遮拦下的人脸识别等功能，均取得了突出效果。

After being approached by *The Wire*, Cue Group appears to have removed the highlighted sentence on their website, says: "The CUE All-in-One Machine is an epidemic prevention product jointly and urgently developed by Cue Group, Zhuhai Zhongdun Star Technology [a subsidiary of Cue Group] and the National Video Engineering Laboratory (Zhuhai) Innovation Center." *Source: Cue Group (https://cue.group/#/newsdetails?id=2020_005)*

The discovery that a KKR-backed firm may have jointly developed a surveillance system with a lab connected to the Ministry of Public Security comes at a challenging time for U.S. companies doing business in China. A growing number of critics have pressured firms to divest or take a stand on China's human rights violations, especially what some have described (https://www.nytimes.com/2021/01/19/us/politics/trump-china-xinjiang.html) as a genocide against Uyghurs. A focal point of those efforts has been evidence of China's surveillance state (https://www.nytimes.com/2019/12/17/technology/china-surveillance.html) — the vast nets of facial recognition cameras, online monitoring and physical checkpoints that have transformed the Xinjiang region (https://www.nytimes.com/2019/05/22/world/asia/china-surveillance-xinjiang.html) into something akin to a modern day Gulag.

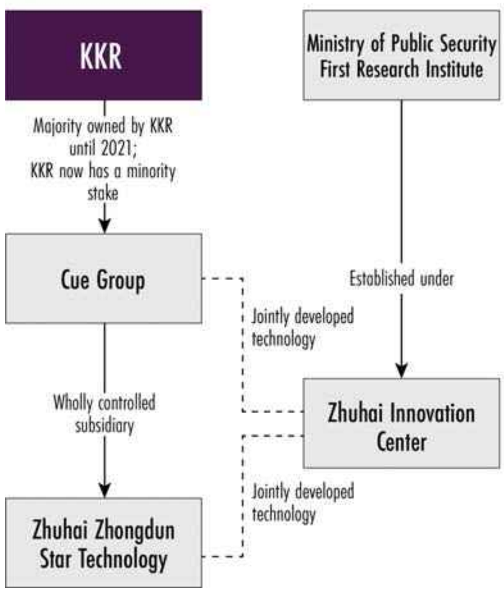
The Trump and Biden administration have each announced a raft of economic sanctions against Chinese companies and government entities for their involvement in human rights violations, and the surveillance industry has been particularly scrutinized. Prominent Chinese firms like SenseTime (https://www.ft.com/content/8ee73509-e364-494e-b4c8-ff9a4f675078), Megvii Technology (https://www.bloomberg.com/news/articles/2020-04-06/u-s-blacklist-hurt-china-ai-giant-s-sales-ahead-of-ipo-attempt), iFlytek (https://asia.nikkei.com/Economy/Trade-war/US-sanctions-8-China-tech-companies-over-role-in-Xinjiang-abuses) and Dahua Technology (https://www.nytimes.com/2019/10/07/us/politics/us-to-blacklist-28-chinese-entities-over-abuses-in-xinjiang.html) have been blacklisted for providing technology to or collaborating with the Chinese government's surveillance efforts. Amid both the public scrutiny and well-documented human rights concerns, analysts say that any association with the MPS is a huge red flag for global investors.

The fact that KKR had a controlling stake in Cue Group while Cue was openly promoting its connection to the MPS lab is "a wake up call" to global companies, says Michael Santoro (https://www.scu.edu/business/management/faculty/santoro/), a corporate ethics expert at the Santa Clara University's Leavey School of Business. If a private equity firm's portfolio company works with China's surveillance apparatus, he says, "It could hardly be a more direct line between their investment and human rights violations."

Cue's ties to the state lab were first uncovered by researchers working for an American labor union, the United Food and Commercial Workers International Union (https://www.ufcw.org/) (UFCW), which had been scrutinizing the private equity firm because of its deals in the grocery business. *The Wire* undertook its own independent investigation into the case during the past six weeks, reviewing corporate filings in the U.S., Germany, Singapore and China.

Tangled Affiliations

According to Cue's company statements and the Zhuhai Innovation Center, Cue Group and Zhuhai Zhongdun worked with the Ministry of Public Security affiliated Lab on technology development. Cue Group and KKR deny that there was any collaboration.



Source: Corporate records, news releases, and the Zhuhai Innovation Center website

According to the records, KKR — which is the second largest private equity group in the world with $459 billion (https://www.kkr.com/kkr-today) worth of assets under its management — holds a stake in Cue through its KKR Asian Fund III. The limited partners (or investors) in Asian Fund III include some of America's biggest state pension funds, including the New York State Common Retirement Fund, the California State Teachers' Retirement System and the Florida State Board of Administration. Courtney Alexander, the researcher who compiled the material on Cue at UFCW, calls this investment "unconscionable for state pension funds."

While there are no indications that Cue or KKR did anything improper, and while details of the partnership remain unclear, Cue's effort to build ties with China's surveillance state comes amid increased calls within the U.S. to better screen outbound investment to China. Currently, Chinese investment in the U.S. is reviewed by the Committee on Foreign Investment in the United States (https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius), or CFIUS, but no such mechanism exists for U.S. investment in China. New legislation already in the works to create a kind of "reverse" CFIUS (https://www.atlanticcouncil.org/blogs/econographics/is-the-us-going-to-screen-outbound-investment/) could catch problematic investments in the Chinese surveillance industry, for example, and it is gaining ground.

"There is a lot of momentum behind it," says Martijn Rasser (https://www.cnas.org/people/martijn-rasser), a senior fellow at the Center for a New American Security (CNAS) and former analyst at the CIA, where he focused on foreign emerging technologies. Cue Group "could become a poster child for exactly why this legislation is of interest in the White House and Congress."

THE PIVOT

Cue Group's CEO Shi Kan, on board what appears to be company's private jet. ***Credit: Cue Group***

In October 2019, when the Zhuhai Innovation Center was unveiled, Cue Group's CEO, Shi Kan, attended the opening ceremony (https://tech.chinadaily.com.cn/a/201910/28/WS5db690e7a31099ab995e8371.html). The Center falls under the Ministry of Public Security's First Research Institute, which develops policing technology for Chinese authorities, and it was established to develop video and A.I. technology for public security applications, according to its website (http://nelivaiczh.com.cn/plus/list.php?tid=1).

Shi, who is often photographed in a black suit with no tie, is something of a big data evangelist and serial entrepreneur. After graduating from Shanghai Jiaotong University in 2003, he went on to work for Intel in China and VMware, an American cloud computing company, in California, according to his LinkedIn profile. He started his first digital marketing company in 2010, which he later sold (http://quotes.money.163.com/f10/ggmx_300383_2018017.html) to Beijing Sinnet Technology, a major Chinese tech firm.[1]

In a press account about the unveiling of the Zhuhai Innovation Center, Shi Kan appears to be pictured third from the right.

At 40 years old, Shi seems to have his hands full. He is an executive in approximately 20 Chinese companies, including Cue Group, and he holds a stake of at least 50 percent in 11 other Chinese firms, according to WireScreen. The vast majority of those companies revolve around digital marketing or information technology, and some are linked to KKR holdings.[2] KKR declined to comment on Shi's other business dealings.

It is unclear how Shi initially got connected with KKR, but in 2017 the American private equity firm combined (https://www.businesswire.com/news/home/20180320006664/en/KKR-Launches-China%E2%80%99s-First-One-Stop-Digital-Marketing-Company-Cue-Co.) four separate Chinese digital marketing firms, including one controlled by Shi[3], to form Cue and appointed Shi as CEO. According to a profile (https://finance.ifeng.com/c/7fO751KmDmZ) of Shi, it was his idea to merge the four companies, saying, "We are definitely not 1+1+1+1=4, our cooperation is 1+1+1+1 > 40!" Although many Chinese entrepreneurs were focusing on ecommerce at the time, Shi said he saw value in big data and digital marketing. As he described it, he "chose to sell water when everyone else was mining gold."

In a KKR press release (https://media.kkr.com/news-details/?news_id=dbb935a8-1e48-4ba1-9c1f-e62a664bd558&type=1&download=1) about Cue, Paul Yang, the head of KKR Greater China, said, "As China's enterprise services and digital media industry undergo profound changes, we believe Cue has excellent prospects for growth and the wide-ranging capabilities and expertise to help its clients achieve business success."

Although KKR declined to comment on when they reduced their stake in Cue, corporate records reviewed by *The Wire* suggest that KKR had a majority stake until six months ago. Other global investment firms involved include California-based Princeville Capital (https://www.princeville-capital.com/), South Korea-based Anchor Equity Partners (https://www.anchorpe.com/) and Hong Kong-based Baring Private Equity Asia (https://www.bpeasia.com/). According to corporate records reviewed by *The Wire,* Baring and a firm called Super Proton (whose identity is unclear) were given joint control over Cue last year. [4]

KKR and Cue Group executives pose for a picture at a launch event for Cue Group in 2018.
Credit: Cue Group

In its five years of existence, Cue seems to have thrived as a digital marketing company. The company grew (https://cue.group/#/introduction#introduction) to have 2,000 employees in Beijing, Shanghai and Chongqing, as well as in South Korea. In 2019, the company reportedly (https://www.reuters.com/article/us-cue-ipo/chinese-digital-agency-pushes-on-with-400-million-u-s-ipo-sources-idUSKBN1XI18D) weighed a $400 million IPO in the U.S., though that stock offering was later canceled. According to its promotional materials, Cue has worked with companies such as Baidu, Huawei and Oppo, providing services (https://www.linkedin.com/feed/update/urn:li:activity:6831465420952879104/) like digital advertising and mapping out where foot traffic is most concentrated within a retail space.

But using big data to help companies target customers and using big data to help the government target individuals is not that dissimilar. After the Zhuhai Innovation Center opened, one of Shi's other companies, a wholly-owned subsidiary of Cue Group called Zhuhai Zhongdun Star Technology, started a "Safe Campus" project with the lab, according to accounts in the Chinese press. The project was described (https://tech.chinadaily.com.cn/a/201910/28/WS5db690e7a31099ab995e8371.html) as a tool to monitor school campuses with facial recognition and big data processing, and in press accounts Shi is called a strategic partner in that effort. The Zhuhai Innovation Center confirmed to *The Wire* that the lab had collaborated with Zhuhai Zhongdun, but it did not reference the Safe Campus project and the lab said the collaboration has since ended.

Cue's spokesperson told *The Wire* that neither Cue nor any of its subsidiaries have worked with the Center, and that Cue "has not participated in the 'Safe Campus' project nor received any revenues related to the project."

Cue's website markets a "Smart City" product, which appears to be very similar to the "Safe Campus" project.
Credit: Cue Group (https://cue.group/#/digital-technology)

When the pandemic broke out, Cue Group seems to have turned to projects more closely aligned with Zhuhai Zhongdun and the Zhuhai Innovation Center. In addition to its "All-in-One Machine" — which, according to recent press releases (https://baijiahao.baidu.com/s?id=1674273670032829130&wfr=spider&for=pc), has been deployed in government agencies, businesses, schools, restaurants, shopping malls, train stations and bus stations — Cue's website markets (https://cue.group/#/digital-technology) a "Smart City" product, which appears to be very similar to the "Safe Campus" project and is described as using A.I., cloud computing and big data processing to provide a digital security platform alongside various government departments.

A Cue spokesperson told *The Wire* that the All-in-One Machine was "developed solely by Cue & Company in-house. This product was developed at the onset of the Covid-19 pandemic, at which point Cue & Company felt a keen sense of social responsibility to help develop a product to screen individuals for fever and high temperature to serve communities." When asked why they edited the webpage referring to the collaboration, the Cue spokesperson said, "we have updated it recently to reflect the accurate fact."

KKR also denies that Cue worked with the Zhuhai Innovation Center. "To our knowledge," said a KKR spokesperson, the product was developed in-house. "We further understand the 'all-in-one machine' was developed without any collaboration with the Video National Engineering Laboratory (Zhuhai) Innovation Center."

But the Zhuhai Innovation Center's admission that it worked with Cue and its subsidiary, Zhuhai Zhongdun, is striking. The Center is a joint collaboration between a state security contractor that is wholly owned by MPS's First Research Institute, and the Chinese Academy of Sciences Institute of Automation (CASIA), an academic body that develops mass surveillance technology and, according to a recent Hoover Institution report (https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china), collaborates with MPS and the People's Liberation Army.

Moreover, the lab director (http://www.neliva.com.cn/Index/lists/catid/11.html) overseeing the Zhuhai Innovation Center from Beijing is Qiu Baoli, a longtime public security official who once served as deputy director of the public security bureau at the Xinjiang Production and Construction Corps (https://www.thewirechina.com/2021/10/31/the-corps-of-xinjiang/), which has been sanctioned by the U.S. government for human rights abuses against the Muslim Uyghur population.

"Look at the players integral to this Center," says Jeffrey Stoff (https://www.hoover.org/profiles/jeffrey-stoff), a former U.S. government official who worked on critical technology protection and recently published a report (https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china) with Stanford's Hoover Institution about CASIA. Given the Center's acknowledgement of the collaboration, "KKR is directly associating with parts of the state that develop surveillance that is responsible for human rights abuses. Even if the particular technology that [KKR] is investing in is deployed for the notionally benign use of temperature detection and Covid detection, it can be easily diverted to reprehensible applications. That needs to be assumed."

Cue Group maintains it is still a digital marketing company first and foremost. The All-in-One Machine, the Cue spokesperson said, "is not part of Cue & Company's core business and will also not be the focus area going forward."

But as recently as August, Cue Group made a $15.4 million investment in a Chongqing-based autonomous and electric vehicle startup, according to Pitchbook. Shortly afterwards, the company released a video (https://www.linkedin.com/company/cuegroup/videos/) of a Cue-brand unmanned vehicle — resembling a tiny tank — that "integrated with various A.I. technologies, [and is an] ideal product to utilize in public security, firefighting, military and engineering scenes." The video depicts a woman tied up with a bag over her head and two men threatening her with a bat; the small Cue vehicle, according to the description, is able to pick up on the body posture of the people in order to understand the dangerous situation.

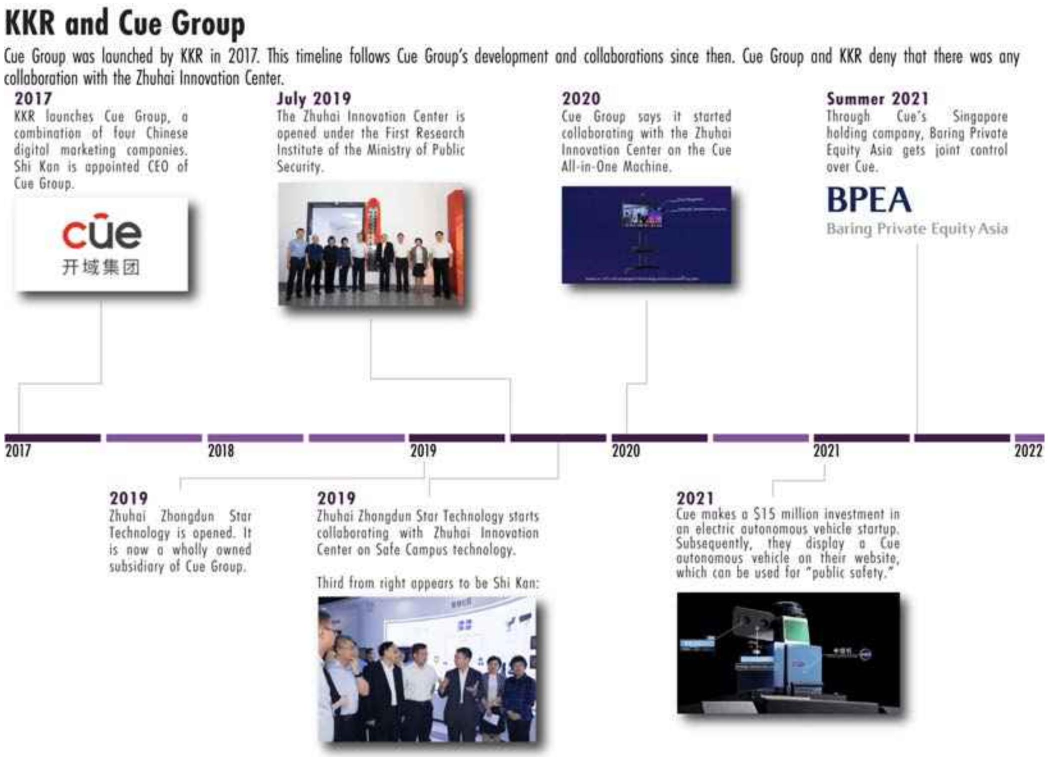
Cue did not respond to questions about why they invested in the autonomous vehicle company.

Screenshots from a marketing video for a Cue-brand unmanned vehicle that "integrated with various A.I. technologies, [and is an] ideal product to utilize in public security, firefighting, military and engineering scenes." ***Source: LinkedIn (https://www.linkedin.com/company/cuegroup/videos/)***

Regardless of why Cue decided to pursue the public security and surveillance market, the key question is whether KKR knew about it. Three KKR executives in China sat on Cue Group's board until last year, according to corporate records. And Xu Kang (https://www.kkr.com/our-firm/leadership/kang-xu), a director in KKR's Shanghai office who "played a significant role in KKR's investments in Cue," according to KKR's website, is still on the board of the holding company in Singapore that owns Cue Group, as of the company's latest filings in November. [5]

"We employ a rigorous due diligence process prior to making an investment, and have ongoing ESG [environmental, social and governance] and compliance monitoring programs in place to provide oversight of our actively held portfolio companies to identify and address issues in an appropriate manner," a KKR spokesperson told *The Wire*.

Asked what KKR's position would be if one of their portfolio companies had indeed collaborated with the Chinese government or an MPS lab, KKR said in a statement: "We were aware a device was developed to protect public health and combat Covid-19. We have no knowledge that the product was used for any other purpose. We want to make clear that we would not be in favor of the technology of any of our portfolio companies being used in violation of internationally recognized human rights."



Source: Media reports, corporate records, PitchBook, Cue Group press releases
Design by Eliot Chen

THE 'POSTER CHILD'

The U.S. pension funds that invest in KKR Asian Fund III, which currently has a stake in Cue, include the New York State Common Retirement Fund, the Minnesota State Board of Investment and California State Teachers' Retirement System, all of which committed $100 million or more pre-2019.

U.S. Public Pension Funds Investing in KKR Asian Fund III	Committed Capital ($ millions)
Washington State Investment Board	500
New York State Common Retirement Fund	285
Oregon Public Employees Retirement System	250
California State Teachers' Retirement System	180
Florida State Board of Administration	150
Minnesota State Board of Investment	100
Louisiana State Employees' Retirement System	50
Public Safety Personnel Retirement System of the State of Arizona	40

Data: PitchBook, pension fund financial reports

Every pension fund that *The Wire* reached out to either declined to comment or did not respond to requests for comment. The one exception was the Washington State Investment Board, which committed $500 (https://www.sib.wa.gov/financial/pdfs/quarterly/ir063021.pdf) million to KKR Asian Fund III in 2018.

"We are certainly aware of the privacy questions tied to the use of personal recognition technologies," Chris Phillips, the director of public affairs for the fund told *The Wire*, "These are long term commitments. The nature of private equity funds is that you can't sell out of them without potentially incurring substantial losses."

This fiduciary obligation to maximize profit often constrains pension funds, says Michael Posner (https://www.stern.nyu.edu/faculty/bio/michael-posner), a professor of ethics and finance at New York University's Stern School of Business and served during the Obama administration as an assistant secretary of state for the Bureau of Democracy, Human Rights and Labor. "But that doesn't mean they can't have conversations about their values," he says. "American companies and investors should not be directly involved in helping the Chinese state undermine the rights of their own citizens."

This is easier said than done, however, especially when it comes to China's byzantine and rather opaque business environment. Industries as diverse as apparel and solar technology have been struggling to figure out how to keep their supply chains out of Xinjiang, which has been the target of sanctions. Meanwhile, despite efforts to block the sale to China of U.S. DNA equipment that might be used to target minorities, the Chinese authorities have found ways to purchase (https://www.nytimes.com/2021/06/11/business/china-dna-xinjiang-american.html) goods made by companies like Thermo Fisher. Emily Weinstein (https://cset.georgetown.edu/staff/emily-weinstein/), a research analyst at Georgetown's Center for Security and Emerging Technology, says that while no U.S. company should be associated with a lab controlled by MPS First Research Institute, "figuring this out requires a significant amount of due diligence and Chinese language skills."

KKR, of course, is a sophisticated operation. The company, which rose to fame as a leveraged buyout firm in the 1980s, and whose activities were chronicled in the best-seller "Barbarians at the Gate (https://www.harpercollins.com/products/barbarians-at-the-gate-bryan-burroughjohn-helyar?variant=32206878539810)," entered the China market in 2007. The firm has a large operation on the ground and has made deals with the state-owned investment banking giant C.I.C.C. (https://www.nytimes.com/2010/02/24/business/global/24yuan.html), the Chinese appliance maker Haier (https://www.reuters.com/article/us-kkr-haier/kkr-buys-stake-in-appliance-maker-in-biggest-china-deal-idUSBRE98T0D520130930), grocery app Xingsheng Youxuan (https://www.reuters.com/article/us-xingsheng-youxuan-fundraising/chinese-grocery-app-xingsheng-youxuan-raises-2-billion-in-new-funding-round-sources-idUSKBN2AJ0GX) and Bytedance (https://www.reuters.com/article/china-bytedance-fundraising/sequoia-and-kkr-lead-bytedance-funding-round-that-values-it-at-180-billion-sources-idUSKBN28L1AL), the Chinese owner of the popular social media app TikTok. KKR has raised four Asia funds, the latest of which totalled $15 billion dollars (https://www.businesswire.com/news/home/20210405005419/en/KKR-Closes-US15-Billion-Asian-Fund-IV) — the largest private equity fund dedicated to Asia ever.

Critics, however, say that outbound U.S. investment to China still enjoys relative anonymity, with little accountability to human rights or national security interests. To ensure that American money doesn't support problematic companies and industries, momentum is building (https://www.wsj.com/articles/panel-urges-restricting-u-s-investment-in-china-over-security-concerns-11637163001) in Washington for U.S. legislation barring or screening outbound investment into sensitive sectors in China.

Currently, the U.S. government's main tool to control outbound investment is to put companies on the Treasury Department's investment blacklist (https://home.treasury.gov/policy-issues/financial-sanctions/consolidated-sanctions-list/ns-cmic-list). But this list only impacts publicly traded securities, and it is reactive: the specific entity must already be known to be involved in human rights abuses or activities contrary to U.S. national security interests. SenseTime, for instance, was placed (https://fortune.com/2019/10/08/china-ai-us-entity-list/) on the U.S. Entity List in 2019 for its involvement in human rights abuses against Uyghurs, barring U.S. exports to the company. But American firms like Fidelity, Qualcomm and Silver Lake continued to put millions of dollars (https://www.buzzfeednews.com/article/ryanmac/us-money-funding-facial-recognition-sensetime-megvii) into the company. In 2021, the same year SenseTime went public (https://www.reuters.com/technology/sensetime-shares-open-up-16-hong-kong-debut-2021-12-30/), the company was added (https://www.nytimes.com/2021/12/13/business/china-sensetime-hong-kong-ipo.html) to the Treasury list.

There are very few government tools that could block firms like KKR from pouring money into a private company like Cue.

"There is a concern that the existing tools we have are not sufficient," says Charlie Vest (https://rhg.com/team/charlie-vest/), a senior analyst at Rhodium Group. "Proponents of [new legislation] say the U.S. government does not have adequate visibility on the transactions that go on between the U.S. and China."

There is a concern that the existing tools we have are not sufficient… Proponents of [new legislation] say the U.S. government does not have adequate visibility on the transactions that go on between the U.S. and China.

— Charlie Vest, a senior analyst at Rhodium Group

In 2020, U.S. foreign direct investment in China amounted to $8.7 billion (https://www.us-china-investment.org/fdi-data), which was the lowest level since 2004, according to Rhodium Group. The decline was due to the pandemic, geopolitical dynamics and the U.S. government's own policies. But this summer, Jake Sullivan, Biden's national security advisor, said (https://www.whitehouse.gov/nsc/briefing-room/2021/07/13/remarks-by-national-security-advisor-jake-sullivan-at-the-national-security-commission-on-artificial-intelligence-global-emerging-technology-summit/) more restrictions could be useful. Current outbound U.S. investment flows, he said, can "circumvent the spirit of export controls or otherwise enhance the technological capacity of our competitors in ways that harm our national security."

It is still unclear what, exactly, an outbound investment screening process would look like, but the America Competes Act (https://www.npr.org/2022/02/04/1078226282/u-s-house-passes-china-competition-bill), which just passed the House and is aimed at bolstering U.S. competitiveness with China, includes a provision (https://www.wiley.law/alert-America-COMPETES-Act-Would-Stand-Up-a-Committee-to-Review-Certain-Outbound-Investment-and-Offshoring-Transactions) for screening in critical industries. It proposes creating an inter-agency committee, akin to the Committee on Foreign Investment in the United States (CFIUS), which would be led by the United States Trade Representative.

But the Senate version of the Competes Act does not include (https://www.politico.com/news/2022/01/25/house-china-bill-trade-title-00001366) the review process, so it remains to be seen how much support the provision really has. It is also unclear what types of investments would be covered under the review, but experts say the surveillance industry could be included.

There is not a lot of precedent to work from. Very few countries have outbound investment controls, says Kevin Wolf (https://www.akingump.com/en/lawyers-advisors/kevin-j-wolf.html), a former official at the Commerce Department's Bureau of Industry and Security, which controls the Entity List. "Historically it has not been a regulated area," says Wolf, who is now a partner at Akin Gump Strauss Hauer & Feld LLP. "If a decision is made to impose outbound investment controls, then how are you going to decide what is covered? What agencies are going to do this? There aren't bodies and staff that know how to do this."

There are also considerable downsides to imposing such an extensive bureaucratic review; according to a recent Rhodium Group study (https://rhg.com/research/tws-outbound/), an outbound screening process would affect over 40 percent of U.S. investment into China.

Moreover, even if an investment screening process had been in place in 2017, it seems unlikely it would have prevented or stopped KKR from investing in Cue Group. Cue, after all, was a digital marketing firm, not a surveillance company. It only started broadcasting its collaboration with China's surveillance apparatus in 2020, three years after KKR's initial investment.

Cue's pivot, analysts say, illustrates one of the unique challenges of investing in China: from a business perspective, it often makes sense for Chinese firms to work with the government. This is especially true since the pandemic, which formed a natural alliance between China's big data companies and government surveillance. Chinese tech behemoths like Alibaba and Tencent, for example, have developed Covid health code apps (https://www.nytimes.com/2020/03/01/business/china-coronavirus-surveillance.html) for the government by using GPS tracking.

In China today, surveillance "is where the money is," says CNAS's Rasser. "If you look at how much the Chinese state is pouring into this, this is where the revenue growth is."

Chinese firms also benefit from working with the government on A.I.-related work because it allows them to access large amounts of data. David Yang (https://economics.harvard.edu/people/david-yang), an economist at Harvard University, recently published a paper (http://davidyyang.com/pdfs/ai_draft.pdf) showing how Chinese A.I. companies that received contracts from the government — and got access to data as a result — were more likely to create innovative and successful commercial products.

"A.I. requires a lot of data to make it accurate enough to be commercially viable," says Yang. "By working with public security, for example, the government gets the aid of the A.I. technology that they don't have themselves, and the firm gets access to the data."

KKR's co-founder Henry Kravis speaking on a *Fortune* panel in Guangzhou in 2017. *Credit: Fortune (https://www.youtube.com/watch?v=pDxHKuZd0sM)*

While these calculations might make sense for Chinese companies, including Cue, when American investors and pension funds are involved, the moral costs are expected to outweigh the financial benefits.

It's not always clear that they do. At a 2017 event in Guangzhou, Henry Kravis, the co-founder of KKR, said that when the firm started in China, it considered one thing: what was needed.

"In those days, everything was needed," he explained (https://www.youtube.com/watch?v=pDxHKuZd0sM). "For example, one of the things that the government needed very badly was to improve food safety and security. The second thing they needed was improvement in the environment and water safety. So we said, ok, let's look and see what we can do."

Once the Chinese government needed surveillance technologies, it seems Cue Group saw what it could do.

Katrina Northrop is a journalist based in Washington D.C. Her work has been published in *The New York Times*, *The Atlantic*, *The Providence Journal*, and *SupChina*. @NorthropKatrina (https://twitter.com/NorthropKatrina)

UFCW
America's Food and Retail Union

March 31, 2022

Cindy Rougeou
Executive Director
Louisiana State Employees Retirement System
P.O. Box 44213
Baton Rouge, LA 70804-4213
executivedirector@lasersonline.org

Re: Divesting of LASERS' investment in Chinese surveillance company via KKR Asian Fund III

Dear Ms. Rougeou:

On November 10, 2021, I wrote to Mr. Robert Beale requesting that LASERS conduct an independent investigation into its investment in Cue Group, a Chinese surveillance company formed by KKR Asian Fund III entities. I did not receive a reply.

On February 20, 2022, *The Wire China* published an investigative article, confirming that Cue and its CEO's personal company collaborated with the Video National Engineering Laboratory Zhuhai Innovation Center, an arm of China's Ministry of Public Security. The Ministry of Public Security is the organ that develops and implements the government's mass surveillance system throughout China.

We believe it is fundamentally wrong for public employees' retirement in Louisiana to fund collaboration with China's repressive surveillance state.

According to *The Wire China*:

> "The fact that KKR had a controlling stake in Cue Group while Cue was openly promoting its connection to the MPS lab is 'a wake up call' to global companies, says Michael Santoro, a corporate ethics expert at the Santa Clara University's Leavey School of Business. If a private equity firm's portfolio company works with China's surveillance apparatus, he says, 'It could hardly be a more direct line between their investment and human rights violations.'"

KKR and Cue denied the collaboration to *The Wire*, even though *The Wire* obtained confirmation from the Zhuhai Lab of Cue's collaboration. The article documents how "both KKR and Cue have scrambled to distance themselves from any association with the surveillance industry...".

According to *The Wire* and our information, KKR and Cue are removing references to this collaboration. After contact from *The Wire*, Cue removed phrases relating to the government-run Zhuhai lab from its website and deleted references to public security and military applications of a new autonomous vehicle project. KKR took down an unrelated website containing a filing that listed KKR's indirect subsidiaries, including Cue and two personal companies of Cue's CEO.

Efforts to cover up this collaboration make action by your office even more urgent. We urge you to divest of your investment in Cue (which is held in KKR Asian Fund III) immediately and contribute any profits from Cue to human rights organizations involved with China.

I look forward to your action. I can be reached at 202-264-9741 or dyoung@ufcw.org.

Sincerely,

David T. Young
International Vice President
Director, National Strategic Retail Department

Enclosure

Cc: Mr. Robert Beale, Chief Investment Officer

From: AMathews@treasury.la.gov <AMathews@treasury.la.gov> on behalf of Amy Mathews <AMathews@treasury.la.gov>
Sent: Friday, April 22, 2022 2:52 PM EDT
To: John Schroder <JSchroder@treasury.la.gov>; John Broussard <JBroussard@treasury.la.gov>
CC: Desie Thymes Mack <dtmack@treasury.la.gov>; Jasmine Tricou <JTricou@treasury.la.gov>
Subject: FW: Divesting of LASERS' investment in Chinese surveillance company in KKR Asian Fund III
Attachment(s): "UFCW letter to LASERS 033122.pdf","The Wire - The Surveillance Stake 02202022.pdf"

John & John… I don't see your name on this email… passing it on… Amy

AMY A. MATHEWS
INVESTMENT OFFICER II
OFFICE OF STATE TREASURER JOHN M. SCHRODER
WORK: (225) 342-1598 | FAX: (225)342-9721

From: Courtney Alexander <calexander@ufcw.org>
Sent: Friday, April 22, 2022 1:44 PM
To: william@wkleinpeter.com; sstemplet0310@gmail.com; Thomas.Bickham@la.gov; virginia.burton@cox.net; charlesfcastille@gmail.com; byron.decoteau@la.gov; ternisa.hutchinson@la.gov; amymat221@gmail.com; barbaramcmanus02@gmail.com; Barbara.Goodson@la.gov; devillierp@legis.la.gov; peacockb@legis.la.gov; pricee@legis.la.gov; Amy Mathews <AMathews@treasury.la.gov>
Cc: executivedirector@lasersonline.org; David Young <dyoung@ufcw.org>; Jon Scolnik <jscolnik@ufcw.org>
Subject: Divesting of LASERS' investment in Chinese surveillance company in KKR Asian Fund III

****Verify sender email address/content****

As a Trustee of the Louisiana State Employees Retirement System, we are providing you with a copy of our letter and its attachment to Ms. Cindy Rougeou.

Please contact me if you have any questions.

Courtney Alexander
Research Department
United Food & Commercial Workers International Union
631-834-4681

The Wire *China*

COVER STORY

The Surveillance Stake

A Chinese company backed by American pension fund money and built by one of world's premier private equity firms publicly touted its ties to China's surveillance apparatus. Is U.S. outbound investment in trouble?

BY KATRINA NORTHROP — FEBRUARY 20, 2022

Illustration by Sam Ward

In March 2020, a town 30 miles northeast of Shanghai's city center was scrambling to respond to the unfolding pandemic. In its effort to control the spread of Covid-19, the town of Shuxin announced that the government would be implementing a new technology in its government buildings: The "CUE All-in-One Machine."

A sleek black device with a camera at eye level, a wide square screen in the middle and two skinny poles connected to wheels at the bottom, the All-in-One Machine uses facial recognition technology and thermal imaging to identify individuals who are walking by and take their temperature. It was produced by Cue Group (https://cue.group/#/), a China-based portfolio company held by one of the world's biggest financial services firms, the American private equity giant KKR & Company.

The CUE All-in-One Machine. ***Credit: Cue Group***

But the device's utility goes far beyond pandemic prevention. As Cue's head of new retail products made clear during the 2020 announcement (https://cue.group/#/newsdetails?id=2020_005) in Shuxin, even after Covid-19 subsides, the device could continue to be used to "collect daily passenger flow, record visitors' information, send warnings about abnormal passenger flow, prevent incidents involving many people gathering" and even "recognize specific blacklisted people."

Why would Cue Group, a digital marketing company that New York-based KKR established in 2017, develop a device with such wide ranging surveillance applications? The answer may be linked, in part, to the Ministry of Public Security (MPS), one of the architects of China's domestic surveillance apparatus.

An investigation by *The Wire* has determined that Cue — a relatively young firm backed by American pension fund money and built by one of America's premier private equity firms — promoted a collaboration with a Chinese government agency known for operating the world's most sophisticated surveillance network, all at a time when critics have alleged that this vast spying and monitoring system was being used to engage in human rights abuses (https://www.nytimes.com/interactive/2019/11/16/world/asia/china-xinjiang-documents.html) against Uyghur minorities in the country's far northwest region of Xinjiang.

While it is unclear how the technology developed by American-backed Cue has been deployed in China, both KKR and Cue have scrambled to distance themselves from any association with the surveillance industry, telling *The Wire* this week that Cue remains a digital marketing company. A spokesperson for New York Stock Exchange-listed KKR said the firm was unaware of any collaboration between Cue and China's security forces and noted that KKR had recently reduced its controlling stake in Cue, one of its 16 Chinese portfolio companies, and now has a minority stake. (See KKR's complete statement here (https://drive.google.com/file/d/1BI2Nz2Jihc4EMpmseGFvNcVOCxHSBoWk/view?usp=sharing).)

But Shanghai-based Cue promoted its ties to MPS on its website for nearly two years. This week, after being questioned about its partnership with the Video National Engineering Laboratory Zhuhai Innovation Center (http://nelivaiczh.com.cn/), a government laboratory under MPS, Cue appears to have edited a web page to remove passages touting the collaboration on the All-in-One Machine. In a statement to *The Wire*, Cue said there never was any collaboration with the state lab, even though the Zhuhai lab confirmed in an email to *The Wire* that it had at one time collaborated with Cue and one of its wholly-owned subsidiaries. The lab did not describe the exact nature of the collaboration.

Screenshot from February 10th, 2022

政企同心，携手抗疫 | 开域一体机防疫效果获赞

2020-04-02

为应对新冠疫情，协助政府正常提供公共服务，保障人民出行安全，开域集团与上海市竖新镇政府展开积极合作，率先在镇政府办公大楼部署了开域疫情防控实时监测一体机（以下简称"开域一体机"）。3月25日，镇政府领导和开域集团主要负责人就一体机的防疫部署效果做了实地考察，现场测试了"开域一体机"在无接触快速测温、口罩遮挡下的人脸识别等功能，均取得了突出效果。

开域一体机"是由开域集团、珠海中盾之星科技有限公司与视频国家工程实验室(珠海)创新中心共同紧急研发的防疫产品，具有AI智能无接触式测温以及14天迁徙轨迹追踪两大核心功能。支持20人同时测温，快速有效地筛查区域内的发热个体，锁定同行及周围个体，并及时预警。同时，结合开域数据管理平台海量设备信息及行为信息，发现区域中来自疫区的客流，及时报警，以便迅速反应，有效做好防护措施。

Screenshot from February 17th, 2022

政企同心，携手抗疫 | 开域一体机防疫效果获赞

2020-04-02

为应对新冠疫情，协助政府正常提供公共服务，保障人民出行安全，开域集团与上海市竖新镇政府展开积极合作，率先在镇政府办公大楼部署了开域疫情防控实时监测一体机（以下简称"开域一体机"）。3月25日，镇政府领导和开域集团主要负责人就一体机的防疫部署效果做了实地考察，现场测试了"开域一体机"在无接触快速测温、口罩遮挡下的人脸识别等功能，均取得了突出效果。

After being approached by *The Wire*, Cue Group appears to have removed the highlighted sentence on their website, says: "The CUE All-in-One Machine is an epidemic prevention product jointly and urgently developed by Cue Group, Zhuhai Zhongdun Star Technology [a subsidiary of Cue Group] and the National Video Engineering Laboratory (Zhuhai) Innovation Center." *Source: Cue Group (https://cue.group/#/newsdetails?id=2020_005)*

The discovery that a KKR-backed firm may have jointly developed a surveillance system with a lab connected to the Ministry of Public Security comes at a challenging time for U.S. companies doing business in China. A growing number of critics have pressured firms to divest or take a stand on China's human rights violations, especially what some have described (https://www.nytimes.com/2021/01/19/us/politics/trump-china-xinjiang.html) as a genocide against Uyghurs. A focal point of those efforts has been evidence of China's surveillance state (https://www.nytimes.com/2019/12/17/technology/china-surveillance.html) — the vast nets of facial recognition cameras, online monitoring and physical checkpoints that have transformed the Xinjiang region (https://www.nytimes.com/2019/05/22/world/asia/china-surveillance-xinjiang.html) into something akin to a modern day Gulag.

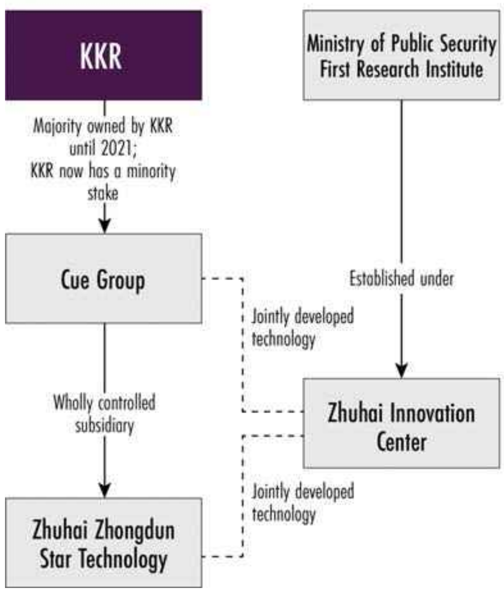
The Trump and Biden administration have each announced a raft of economic sanctions against Chinese companies and government entities for their involvement in human rights violations, and the surveillance industry has been particularly scrutinized. Prominent Chinese firms like SenseTime (https://www.ft.com/content/8ee73509-e364-494e-b4c8-ff9a4f675078), Megvii Technology (https://www.bloomberg.com/news/articles/2020-04-06/u-s-blacklist-hurt-china-ai-giant-s-sales-ahead-of-ipo-attempt), iFlytek (https://asia.nikkei.com/Economy/Trade-war/US-sanctions-8-China-tech-companies-over-role-in-Xinjiang-abuses) and Dahua Technology (https://www.nytimes.com/2019/10/07/us/politics/us-to-blacklist-28-chinese-entities-over-abuses-in-xinjiang.html) have been blacklisted for providing technology to or collaborating with the Chinese government's surveillance efforts. Amid both the public scrutiny and well-documented human rights concerns, analysts say that any association with the MPS is a huge red flag for global investors.

The fact that KKR had a controlling stake in Cue Group while Cue was openly promoting its connection to the MPS lab is "a wake up call" to global companies, says Michael Santoro (https://www.scu.edu/business/management/faculty/santoro/), a corporate ethics expert at the Santa Clara University's Leavey School of Business. If a private equity firm's portfolio company works with China's surveillance apparatus, he says, "It could hardly be a more direct line between their investment and human rights violations."

Cue's ties to the state lab were first uncovered by researchers working for an American labor union, the United Food and Commercial Workers International Union (https://www.ufcw.org/) (UFCW), which had been scrutinizing the private equity firm because of its deals in the grocery business. *The Wire* undertook its own independent investigation into the case during the past six weeks, reviewing corporate filings in the U.S., Germany, Singapore and China.

Tangled Affiliations

According to Cue's company statements and the Zhuhai Innovation Center, Cue Group and Zhuhai Zhongdun worked with the Ministry of Public Security affiliated Lab on technology development. Cue Group and KKR deny that there was any collaboration.



Source: Corporate records, news releases, and the Zhuhai Innovation Center website

According to the records, KKR — which is the second largest private equity group in the world with $459 billion (https://www.kkr.com/kkr-today) worth of assets under its management — holds a stake in Cue through its KKR Asian Fund III. The limited partners (or investors) in Asian Fund III include some of America's biggest state pension funds, including the New York State Common Retirement Fund, the California State Teachers' Retirement System and the Florida State Board of Administration. Courtney Alexander, the researcher who compiled the material on Cue at UFCW, calls this investment "unconscionable for state pension funds."

While there are no indications that Cue or KKR did anything improper, and while details of the partnership remain unclear, Cue's effort to build ties with China's surveillance state comes amid increased calls within the U.S. to better screen outbound investment to China. Currently, Chinese investment in the U.S. is reviewed by the Committee on Foreign Investment in the United States (https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius), or CFIUS, but no such mechanism exists for U.S. investment in China. New legislation already in the works to create a kind of "reverse" CFIUS (https://www.atlanticcouncil.org/blogs/econographics/is-the-us-going-to-screen-outbound-investment/) could catch problematic investments in the Chinese surveillance industry, for example, and it is gaining ground.

"There is a lot of momentum behind it," says Martijn Rasser (https://www.cnas.org/people/martijn-rasser), a senior fellow at the Center for a New American Security (CNAS) and former analyst at the CIA, where he focused on foreign emerging technologies. Cue Group "could become a poster child for exactly why this legislation is of interest in the White House and Congress."

THE PIVOT

Cue Group's CEO Shi Kan, on board what appears to be company's private jet. ***Credit: Cue Group***

In October 2019, when the Zhuhai Innovation Center was unveiled, Cue Group's CEO, Shi Kan, attended the opening ceremony (https://tech.chinadaily.com.cn/a/201910/28/WS5db690e7a31099ab995e8371.html). The Center falls under the Ministry of Public Security's First Research Institute, which develops policing technology for Chinese authorities, and it was established to develop video and A.I. technology for public security applications, according to its website (http://nelivaiczh.com.cn/plus/list.php?tid=1).

Shi, who is often photographed in a black suit with no tie, is something of a big data evangelist and serial entrepreneur. After graduating from Shanghai Jiaotong University in 2003, he went on to work for Intel in China and VMware, an American cloud computing company, in California, according to his LinkedIn profile. He started his first digital marketing company in 2010, which he later sold (http://quotes.money.163.com/f10/ggmx_300383_2018017.html) to Beijing Sinnet Technology, a major Chinese tech firm.[1]

At 40 years old, Shi seems to have his hands full. He is an executive in approximately 20 Chinese companies, including Cue Group, and he holds a stake of at least 50 percent in 11 other Chinese firms, according to WireScreen. The vast majority of those companies revolve around digital marketing or information technology, and some are linked to KKR holdings.[2] KKR declined to comment on Shi's other business dealings.

In a press account about the unveiling of the Zhuhai Innovation Center, Shi Kan appears to be pictured third from the right.

It is unclear how Shi initially got connected with KKR, but in 2017 the American private equity firm combined (https://www.businesswire.com/news/home/20180320006664/en/KKR-Launches-China%E2%80%99s-First-One-Stop-Digital-Marketing-Company-Cue-Co.) four separate Chinese digital marketing firms, including one controlled by Shi[3], to form Cue and appointed Shi as CEO. According to a profile (https://finance.ifeng.com/c/7fO751KmDmZ) of Shi, it was his idea to merge the four companies, saying, "We are definitely not 1+1+1+1=4, our cooperation is 1+1+1+1 > 40!" Although many Chinese entrepreneurs were focusing on ecommerce at the time, Shi said he saw value in big data and digital marketing. As he described it, he "chose to sell water when everyone else was mining gold."

In a KKR press release (https://media.kkr.com/news-details/?news_id=dbb935a8-1e48-4ba1-9c1f-e62a664bd558&type=1&download=1) about Cue, Paul Yang, the head of KKR Greater China, said, "As China's enterprise services and digital media industry undergo profound changes, we believe Cue has excellent prospects for growth and the wide-ranging capabilities and expertise to help its clients achieve business success."

Although KKR declined to comment on when they reduced their stake in Cue, corporate records reviewed by *The Wire* suggest that KKR had a majority stake until six months ago. Other global investment firms involved include California-based Princeville Capital (https://www.princeville-capital.com/), South Korea-based Anchor Equity Partners (https://www.anchorpe.com/) and Hong Kong-based Baring Private Equity Asia (https://www.bpeasia.com/). According to corporate records reviewed by *The Wire,* Baring and a firm called Super Proton (whose identity is unclear) were given joint control over Cue last year. [4]

KKR and Cue Group executives pose for a picture at a launch event for Cue Group in 2018.
Credit: Cue Group

In its five years of existence, Cue seems to have thrived as a digital marketing company. The company grew (https://cue.group/#/introduction#introduction) to have 2,000 employees in Beijing, Shanghai and Chongqing, as well as in South Korea. In 2019, the company reportedly (https://www.reuters.com/article/us-cue-ipo/chinese-digital-agency-pushes-on-with-400-million-u-s-ipo-sources-idUSKBN1XI18D) weighed a $400 million IPO in the U.S., though that stock offering was later canceled. According to its promotional materials, Cue has worked with companies such as Baidu, Huawei and Oppo, providing services (https://www.linkedin.com/feed/update/urn:li:activity:6831465420952879104/) like digital advertising and mapping out where foot traffic is most concentrated within a retail space.

But using big data to help companies target customers and using big data to help the government target individuals is not that dissimilar. After the Zhuhai Innovation Center opened, one of Shi's other companies, a wholly-owned subsidiary of Cue Group called Zhuhai Zhongdun Star Technology, started a "Safe Campus" project with the lab, according to accounts in the Chinese press. The project was described (https://tech.chinadaily.com.cn/a/201910/28/WS5db690e7a31099ab995e8371.html) as a tool to monitor school campuses with facial recognition and big data processing, and in press accounts Shi is called a strategic partner in that effort. The Zhuhai Innovation Center confirmed to *The Wire* that the lab had collaborated with Zhuhai Zhongdun, but it did not reference the Safe Campus project and the lab said the collaboration has since ended.

Cue's spokesperson told *The Wire* that neither Cue nor any of its subsidiaries have worked with the Center, and that Cue "has not participated in the 'Safe Campus' project nor received any revenues related to the project."

Cue's website markets a "Smart City" product, which appears to be very similar to the "Safe Campus" project.
***Credit:* Cue Group (https://cue.group/#/digital-technology)**

When the pandemic broke out, Cue Group seems to have turned to projects more closely aligned with Zhuhai Zhongdun and the Zhuhai Innovation Center. In addition to its "All-in-One Machine" — which, according to recent press releases (https://baijiahao.baidu.com/s?id=1674273670032829130&wfr=spider&for=pc), has been deployed in government agencies, businesses, schools, restaurants, shopping malls, train stations and bus stations — Cue's website markets (https://cue.group/#/digital-technology) a "Smart City" product, which appears to be very similar to the "Safe Campus" project and is described as using A.I., cloud computing and big data processing to provide a digital security platform alongside various government departments.

A Cue spokesperson told *The Wire* that the All-in-One Machine was "developed solely by Cue & Company in-house. This product was developed at the onset of the Covid-19 pandemic, at which point Cue & Company felt a keen sense of social responsibility to help develop a product to screen individuals for fever and high temperature to serve communities." When asked why they edited the webpage referring to the collaboration, the Cue spokesperson said, "we have updated it recently to reflect the accurate fact."

KKR also denies that Cue worked with the Zhuhai Innovation Center. "To our knowledge," said a KKR spokesperson, the product was developed in-house. "We further understand the 'all-in-one machine' was developed without any collaboration with the Video National Engineering Laboratory (Zhuhai) Innovation Center."

But the Zhuhai Innovation Center's admission that it worked with Cue and its subsidiary, Zhuhai Zhongdun, is striking. The Center is a joint collaboration between a state security contractor that is wholly owned by MPS's First Research Institute, and the Chinese Academy of Sciences Institute of Automation (CASIA), an academic body that develops mass surveillance technology and, according to a recent Hoover Institution report (https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china), collaborates with MPS and the People's Liberation Army.

Moreover, the lab director (http://www.neliva.com.cn/Index/lists/catid/11.html) overseeing the Zhuhai Innovation Center from Beijing is Qiu Baoli, a longtime public security official who once served as deputy director of the public security bureau at the Xinjiang Production and Construction Corps (https://www.thewirechina.com/2021/10/31/the-corps-of-xinjiang/), which has been sanctioned by the U.S. government for human rights abuses against the Muslim Uyghur population.

"Look at the players integral to this Center," says Jeffrey Stoff (https://www.hoover.org/profiles/jeffrey-stoff), a former U.S. government official who worked on critical technology protection and recently published a report (https://www.hoover.org/research/eyes-wide-open-ethical-risks-research-collaboration-china) with Stanford's Hoover Institution about CASIA. Given the Center's acknowledgement of the collaboration, "KKR is directly associating with parts of the state that develop surveillance that is responsible for human rights abuses. Even if the particular technology that [KKR] is investing in is deployed for the notionally benign use of temperature detection and Covid detection, it can be easily diverted to reprehensible applications. That needs to be assumed."

Cue Group maintains it is still a digital marketing company first and foremost. The All-in-One Machine, the Cue spokesperson said, "is not part of Cue & Company's core business and will also not be the focus area going forward."

But as recently as August, Cue Group made a $15.4 million investment in a Chongqing-based autonomous and electric vehicle startup, according to Pitchbook. Shortly afterwards, the company released a video (https://www.linkedin.com/company/cuegroup/videos/) of a Cue-brand unmanned vehicle — resembling a tiny tank — that "integrated with various A.I. technologies, [and is an] ideal product to utilize in public security, firefighting, military and engineering scenes." The video depicts a woman tied up with a bag over her head and two men threatening her with a bat; the small Cue vehicle, according to the description, is able to pick up on the body posture of the people in order to understand the dangerous situation.

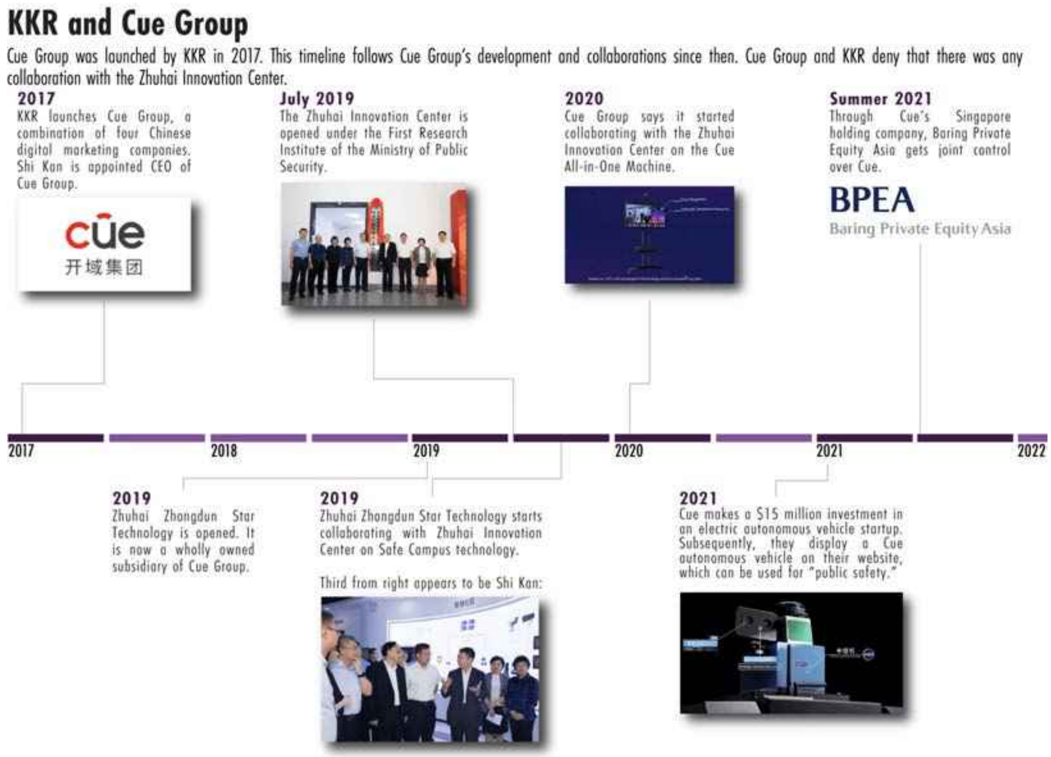
Cue did not respond to questions about why they invested in the autonomous vehicle company.

Screenshots from a marketing video for a Cue-brand unmanned vehicle that "integrated with various A.I. technologies, [and is an] ideal product to utilize in public security, firefighting, military and engineering scenes."
Source: LinkedIn (https://www.linkedin.com/company/cuegroup/videos/)

Regardless of why Cue decided to pursue the public security and surveillance market, the key question is whether KKR knew about it. Three KKR executives in China sat on Cue Group's board until last year, according to corporate records. And Xu Kang (https://www.kkr.com/our-firm/leadership/kang-xu), a director in KKR's Shanghai office who "played a significant role in KKR's investments in Cue," according to KKR's website, is still on the board of the holding company in Singapore that owns Cue Group, as of the company's latest filings in November.[5]

"We employ a rigorous due diligence process prior to making an investment, and have ongoing ESG [environmental, social and governance] and compliance monitoring programs in place to provide oversight of our actively held portfolio companies to identify and address issues in an appropriate manner," a KKR spokesperson told *The Wire*.

Asked what KKR's position would be if one of their portfolio companies had indeed collaborated with the Chinese government or an MPS lab, KKR said in a statement: "We were aware a device was developed to protect public health and combat Covid-19. We have no knowledge that the product was used for any other purpose. We want to make clear that we would not be in favor of the technology of any of our portfolio companies being used in violation of internationally recognized human rights."



Source: Media reports, corporate records, PitchBook, Cue Group press releases
Design by Eliot Chen

THE 'POSTER CHILD'

The U.S. pension funds that invest in KKR Asian Fund III, which currently has a stake in Cue, include the New York State Common Retirement Fund, the Minnesota State Board of Investment and California State Teachers' Retirement System, all of which committed $100 million or more pre-2019.

U.S. Public Pension Funds Investing in KKR Asian Fund III	Committed Capital ($ millions)
Washington State Investment Board	500
New York State Common Retirement Fund	285
Oregon Public Employees Retirement System	250
California State Teachers' Retirement System	180
Florida State Board of Administration	150
Minnesota State Board of Investment	100
Louisiana State Employees' Retirement System	50
Public Safety Personnel Retirement System of the State of Arizona	40

Data: PitchBook, pension fund financial reports

Every pension fund that *The Wire* reached out to either declined to comment or did not respond to requests for comment. The one exception was the Washington State Investment Board, which committed $500 (https://www.sib.wa.gov/financial/pdfs/quarterly/ir063021.pdf) million to KKR Asian Fund III in 2018.

"We are certainly aware of the privacy questions tied to the use of personal recognition technologies," Chris Phillips, the director of public affairs for the fund told *The Wire*, "These are long term commitments. The nature of private equity funds is that you can't sell out of them without potentially incurring substantial losses."

This fiduciary obligation to maximize profit often constrains pension funds, says Michael Posner (https://www.stern.nyu.edu/faculty/bio/michael-posner), a professor of ethics and finance at New York University's Stern School of Business and served during the Obama administration as an assistant secretary of state for the Bureau of Democracy, Human Rights and Labor. "But that doesn't mean they can't have conversations about their values," he says. "American companies and investors should not be directly involved in helping the Chinese state undermine the rights of their own citizens."

This is easier said than done, however, especially when it comes to China's byzantine and rather opaque business environment. Industries as diverse as apparel and solar technology have been struggling to figure out how to keep their supply chains out of Xinjiang, which has been the target of sanctions. Meanwhile, despite efforts to block the sale to China of U.S. DNA equipment that might be used to target minorities, the Chinese authorities have found ways to purchase (https://www.nytimes.com/2021/06/11/business/china-dna-xinjiang-american.html) goods made by companies like Thermo Fisher. Emily Weinstein (https://cset.georgetown.edu/staff/emily-weinstein/), a research analyst at Georgetown's Center for Security and Emerging Technology, says that while no U.S. company should be associated with a lab controlled by MPS First Research Institute, "figuring this out requires a significant amount of due diligence and Chinese language skills."

KKR, of course, is a sophisticated operation. The company, which rose to fame as a leveraged buyout firm in the 1980s, and whose activities were chronicled in the best-seller "Barbarians at the Gate (https://www.harpercollins.com/products/barbarians-at-the-gate-bryan-burroughjohn-helyar?variant=32206878539810)," entered the China market in 2007. The firm has a large operation on the ground and has made deals with the state-owned investment banking giant C.I.C.C. (https://www.nytimes.com/2010/02/24/business/global/24yuan.html), the Chinese appliance maker Haier (https://www.reuters.com/article/us-kkr-haier/kkr-buys-stake-in-appliance-maker-in-biggest-china-deal-idUSBRE98T0D520130930), grocery app Xingsheng Youxuan (https://www.reuters.com/article/us-xingsheng-youxuan-fundraising/chinese-grocery-app-xingsheng-youxuan-raises-2-billion-in-new-funding-round-sources-idUSKBN2AJ0GX) and Bytedance (https://www.reuters.com/article/china-bytedance-fundraising/sequoia-and-kkr-lead-bytedance-funding-round-that-values-it-at-180-billion-sources-idUSKBN28L1AL), the Chinese owner of the popular social media app TikTok. KKR has raised four Asia funds, the latest of which totalled $15 billion dollars (https://www.businesswire.com/news/home/20210405005419/en/KKR-Closes-US15-Billion-Asian-Fund-IV) — the largest private equity fund dedicated to Asia ever.

Critics, however, say that outbound U.S. investment to China still enjoys relative anonymity, with little accountability to human rights or national security interests. To ensure that American money doesn't support problematic companies and industries, momentum is building (https://www.wsj.com/articles/panel-urges-restricting-u-s-investment-in-china-over-security-concerns-11637163001) in Washington for U.S. legislation barring or screening outbound investment into sensitive sectors in China.

Currently, the U.S. government's main tool to control outbound investment is to put companies on the Treasury Department's investment blacklist (https://home.treasury.gov/policy-issues/financial-sanctions/consolidated-sanctions-list/ns-cmic-list). But this list only impacts publicly traded securities, and it is reactive: the specific entity must already be known to be involved in human rights abuses or activities contrary to U.S. national security interests. SenseTime, for instance, was placed (https://fortune.com/2019/10/08/china-ai-us-entity-list/) on the U.S. Entity List in 2019 for its involvement in human rights abuses against Uyghurs, barring U.S. exports to the company. But American firms like Fidelity, Qualcomm and Silver Lake continued to put millions of dollars (https://www.buzzfeednews.com/article/ryanmac/us-money-funding-facial-recognition-sensetime-megvii) into the company. In 2021, the same year SenseTime went public (https://www.reuters.com/technology/sensetime-shares-open-up-16-hong-kong-debut-2021-12-30/), the company was added (https://www.nytimes.com/2021/12/13/business/china-sensetime-hong-kong-ipo.html) to the Treasury list.

There are very few government tools that could block firms like KKR from pouring money into a private company like Cue.

"There is a concern that the existing tools we have are not sufficient," says Charlie Vest (https://rhg.com/team/charlie-vest/), a senior analyst at Rhodium Group. "Proponents of [new legislation] say the U.S. government does not have adequate visibility on the transactions that go on between the U.S. and China."

There is a concern that the existing tools we have are not sufficient… Proponents of [new legislation] say the U.S. government does not have adequate visibility on the transactions that go on between the U.S. and China.

— Charlie Vest, a senior analyst at Rhodium Group

In 2020, U.S. foreign direct investment in China amounted to $8.7 billion (https://www.us-china-investment.org/fdi-data), which was the lowest level since 2004, according to Rhodium Group. The decline was due to the pandemic, geopolitical dynamics and the U.S. government's own policies. But this summer, Jake Sullivan, Biden's national security advisor, said (https://www.whitehouse.gov/nsc/briefing-room/2021/07/13/remarks-by-national-security-advisor-jake-sullivan-at-the-national-security-commission-on-artificial-intelligence-global-emerging-technology-summit/) more restrictions could be useful. Current outbound U.S. investment flows, he said, can "circumvent the spirit of export controls or otherwise enhance the technological capacity of our competitors in ways that harm our national security."

It is still unclear what, exactly, an outbound investment screening process would look like, but the America Competes Act (https://www.npr.org/2022/02/04/1078226282/u-s-house-passes-china-competition-bill), which just passed the House and is aimed at bolstering U.S. competitiveness with China, includes a provision (https://www.wiley.law/alert-America-COMPETES-Act-Would-Stand-Up-a-Committee-to-Review-Certain-Outbound-Investment-and-Offshoring-Transactions) for screening in critical industries. It proposes creating an inter-agency committee, akin to the Committee on Foreign Investment in the United States (CFIUS), which would be led by the United States Trade Representative.

But the Senate version of the Competes Act does not include (https://www.politico.com/news/2022/01/25/house-china-bill-trade-title-00001366) the review process, so it remains to be seen how much support the provision really has. It is also unclear what types of investments would be covered under the review, but experts say the surveillance industry could be included.

There is not a lot of precedent to work from. Very few countries have outbound investment controls, says Kevin Wolf (https://www.akingump.com/en/lawyers-advisors/kevin-j-wolf.html), a former official at the Commerce Department's Bureau of Industry and Security, which controls the Entity List. "Historically it has not been a regulated area," says Wolf, who is now a partner at Akin Gump Strauss Hauer & Feld LLP. "If a decision is made to impose outbound investment controls, then how are you going to decide what is covered? What agencies are going to do this? There aren't bodies and staff that know how to do this."

There are also considerable downsides to imposing such an extensive bureaucratic review; according to a recent Rhodium Group study (https://rhg.com/research/tws-outbound/), an outbound screening process would affect over 40 percent of U.S. investment into China.

Moreover, even if an investment screening process had been in place in 2017, it seems unlikely it would have prevented or stopped KKR from investing in Cue Group. Cue, after all, was a digital marketing firm, not a surveillance company. It only started broadcasting its collaboration with China's surveillance apparatus in 2020, three years after KKR's initial investment.

Cue's pivot, analysts say, illustrates one of the unique challenges of investing in China: from a business perspective, it often makes sense for Chinese firms to work with the government. This is especially true since the pandemic, which formed a natural alliance between China's big data companies and government surveillance. Chinese tech behemoths like Alibaba and Tencent, for example, have developed Covid health code apps (https://www.nytimes.com/2020/03/01/business/china-coronavirus-surveillance.html) for the government by using GPS tracking.

In China today, surveillance "is where the money is," says CNAS's Rasser. "If you look at how much the Chinese state is pouring into this, this is where the revenue growth is."

Chinese firms also benefit from working with the government on A.I.-related work because it allows them to access large amounts of data. David Yang (https://economics.harvard.edu/people/david-yang), an economist at Harvard University, recently published a paper (http://davidyyang.com/pdfs/ai_draft.pdf) showing how Chinese A.I. companies that received contracts from the government — and got access to data as a result — were more likely to create innovative and successful commercial products.

"A.I. requires a lot of data to make it accurate enough to be commercially viable," says Yang. "By working with public security, for example, the government gets the aid of the A.I. technology that they don't have themselves, and the firm gets access to the data."

KKR's co-founder Henry Kravis speaking on a *Fortune* panel in Guangzhou in 2017. ***Credit:* Fortune (https://www.youtube.com/watch?v=pDxHKuZd0sM)**

While these calculations might make sense for Chinese companies, including Cue, when American investors and pension funds are involved, the moral costs are expected to outweigh the financial benefits.

It's not always clear that they do. At a 2017 event in Guangzhou, Henry Kravis, the co-founder of KKR, said that when the firm started in China, it considered one thing: what was needed.

"In those days, everything was needed," he explained (https://www.youtube.com/watch?v=pDxHKuZd0sM). "For example, one of the things that the government needed very badly was to improve food safety and security. The second thing they needed was improvement in the environment and water safety. So we said, ok, let's look and see what we can do."

Once the Chinese government needed surveillance technologies, it seems Cue Group saw what it could do.

Katrina Northrop is a journalist based in Washington D.C. Her work has been published in *The New York Times*, *The Atlantic*, *The Providence Journal*, and *SupChina*. @NorthropKatrina (https://twitter.com/NorthropKatrina)

March 31, 2022

Cindy Rougeou
Executive Director
Louisiana State Employees Retirement System
P.O. Box 44213
Baton Rouge, LA 70804-4213
executivedirector@lasersonline.org

Re: Divesting of LASERS' investment in Chinese surveillance company via KKR Asian Fund III

Dear Ms. Rougeou:

On November 10, 2021, I wrote to Mr. Robert Beale requesting that LASERS conduct an independent investigation into its investment in Cue Group, a Chinese surveillance company formed by KKR Asian Fund III entities. I did not receive a reply.

On February 20, 2022, *The Wire China* published an investigative article, confirming that Cue and its CEO's personal company collaborated with the Video National Engineering Laboratory Zhuhai Innovation Center, an arm of China's Ministry of Public Security. The Ministry of Public Security is the organ that develops and implements the government's mass surveillance system throughout China.

We believe it is fundamentally wrong for public employees' retirement in Louisiana to fund collaboration with China's repressive surveillance state.

According to *The Wire China*:

> "The fact that KKR had a controlling stake in Cue Group while Cue was openly promoting its connection to the MPS lab is 'a wake up call' to global companies, says Michael Santoro, a corporate ethics expert at the Santa Clara University's Leavey School of Business. If a private equity firm's portfolio company works with China's surveillance apparatus, he says, 'It could hardly be a more direct line between their investment and human rights violations.'"

KKR and Cue denied the collaboration to *The Wire*, even though *The Wire* obtained confirmation from the Zhuhai Lab of Cue's collaboration. The article documents how "both KKR and Cue have scrambled to distance themselves from any association with the surveillance industry…".

According to *The Wire* and our information, KKR and Cue are removing references to this collaboration. After contact from *The Wire*, Cue removed phrases relating to the government-run Zhuhai lab from its website and deleted references to public security and military applications of a new autonomous vehicle project. KKR took down an unrelated website containing a filing that listed KKR's indirect subsidiaries, including Cue and two personal companies of Cue's CEO.

Efforts to cover up this collaboration make action by your office even more urgent. We urge you to divest of your investment in Cue (which is held in KKR Asian Fund III) immediately and contribute any profits from Cue to human rights organizations involved with China.

I look forward to your action. I can be reached at 202-264-9741 or dyoung@ufcw.org.

Sincerely,

David T. Young
International Vice President
Director, National Strategic Retail Department

Enclosure

Cc: Mr. Robert Beale, Chief Investment Officer

From: ECowser@treasury.la.gov <ECowser@treasury.la.gov>
Sent: Monday, October 03, 2022 2:52 PM EDT
To: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; dtmack@treasury.la.gov <dtmack@treasury.la.gov>; NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; TLigi@treasury.la.gov <TLigi@treasury.la.gov>; JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>
Subject: PLEASE REVIEW ASAP: BlackRock Letter DRAFT 07 and press release 03
Attachment(s): "Letter to BlackRock Draft 07.docx","10.05.22 Schroder Louisiana Blackrock press release DRAFT 03.docx"

Once you approve, Cale is ready to pitch an exclusive to FOX. We will send the letter, but will NOT release the press release until after the national exclusives have been fulfilled.

ERIN M. COWSER
PRIVATE SECRETARY TO THE TREASURER
OFFICE OF STATE TREASURER JOHN M. SCHRODER
CELL: (225) 432-9363

Schroder protects Treasury funds from ESG by divesting $794M from BlackRock

BATON ROUGE, LA – Louisiana State Treasurer John M. Schroder announced in a letter to BlackRock, Inc. investment firm CEO Larry Fink that he will divest all Treasury funds from BlackRock. He reported that $560M has been removed to date and that a total of $794M will be removed by year's end.

"This divestment is necessary to protect Louisiana from mandates BlackRock has called for that would cripple our critical energy sector," said Schroder, who serves as incoming chair of the national State Financial Officers Foundation. "I refuse to spend a penny of Treasury funds with a company that will take food off tables, money out of pockets and jobs away from hardworking Louisianans."

Schroder said his action is in response to recent reports that BlackRock has urged companies to embrace "net zero" ESG (Environmental, Social and Governance) investment strategies that would harm our fossil fuel industry, a vital part of our state's economy. His letter comes following a meeting with BlackRock representatives, whose statements he said directly contradicted public messaging by Fink, including letters to shareholders and other BlackRock corporate communications materials.

In the letter Schroder points to an overarching fiduciary duty to investors that BlackRock is failing to meet. "ESG investing violates Louisiana law on the fiduciary duties which require a sole focus on financial returns for the beneficiaries of state funds," he wrote. "A focus on political or social goals or placing those goals above the duty to enhance investors' returns is unacceptable under Louisiana law."

Schroder acknowledged that BlackRock continues to invest in oil and gas companies. However, he concluded that it does not counterbalance the investment firm's stated intent to force those companies—and all others—to adopt ESG-friendly practices, regardless of whether they were in the best interest of their clients.

Treasurer Schroder added that ESG investing is a threat to our country's founding principles because it allows companies like BlackRock to bypass the democratic process and push political agendas without having to go through the ballot box.

"They are pushing their agendas contrary to the best interests of the people whose money they are using!" said Schroder. "This is complete disregard for personal liberty."

Dear Mr. Fink,

I write today on behalf of the hardworking citizens of the great state of Louisiana. Thank you for the opportunity to visit with members of your team at the National Association of State Treasurers (NAST) conference. While I appreciate the meeting and look forward to further discussion, I found that the statements your representatives made contradicted most of the public messaging I have read in your annual letters to CEOs or heard you say in the media.

Your blatantly anti-fossil fuel policies would destroy Louisiana's economy.

Therefore, Louisiana Treasury will liquidate all BlackRock investments by the end of 2022. To date we have divested $560 million. We are strategically divesting over a period of time so state money is not lost to the detriment of our citizens. Once complete this divestment will reflect $794 million no longer entangled in BlackRock money market funds, mutual funds or exchange-traded funds (ETFs) holdings.

This divestment is necessary to protect Louisiana from actions and policies that would actively seek to hamstring our fossil fuel sector. In my opinion, your support of ESG investing is inconsistent with the best economic interests and values of Louisiana. I cannot support an institution that would deny our state the benefit of one of its most robust assets. Simply put, we cannot be party to the crippling of our own economy.

In addition, according to my legal counsel, Environmental, Social and Governance (ESG) investing is contrary to Louisiana law on fiduciary duties, which requires a sole focus on financial returns for the beneficiaries of state funds. Focusing on ESG's political and social goals or placing those goals above the duty to enhance investors' returns is unacceptable under Louisiana law. A letter signed by 19 state attorneys general sent to you recently emphasized this same point.

I fully realize, as your representatives noted during our recent meeting, that BlackRock currently invests in oil and gas companies. Nonetheless, your consistent public messaging has made very clear what BlackRock is demanding from fossil fuel company CEOs and every other company they invest in.

BlackRock has been a champion for ESG investing. Your 2021 letter to CEOs clearly specified that BlackRock's goal is an economy "that emits no more carbon dioxide than it removes from the atmosphere by 2050," which you acknowledge will require "a transformation of the entire economy." You call for a "transformation" of our entire economy that will not be made through a democratic process. Instead you talked about how,"[b]ehaviors are going to have to change and this is one thing we are asking companies. You have to force behaviors. And at Blackrock, we are forcing behaviors." So much for democracy.

You have admitted that your ESG agenda of forcing behaviors will not increase investor returns. Your 2022 letter to CEOs stated plainly that “We need to be honest about the fact that green products often come at a higher cost.” High cost/low return environmental policies will reduce a company’s profits...and investors’ returns.

BlackRock applies this model to its ESG products, exploiting investor’s social conscience to extract higher fees. A recent study of U.S. fund fees referred to investors in so-called sustainable funds paying “greeniums” compared to conventional funds.

Then there is the matter of returns. Recently Blackrock set a record for “the largest amount of money lost by a single firm over a six-month period” having “lost $1.7 trillion of clients’ money,” associated with ESG accounts, according to a July 20, 2022 Bloomberg article titled “BlackRock Is Breaking the Wrong Kind of Records.” Such huge losses would seem to indicate that BlackRock is either not focused on investor returns or that its ESG investment strategy is flawed. Neither bodes well for investors.

Under Louisiana law, investors’ returns take precedence.

I’m convinced that ESG investing is more than bad business; it’s a threat to our founding principles: democracy, economic freedom, and individual liberty. It threatens our democracy, bypasses the ballot box and allows large investment firms to push political agendas. It threatens our economic freedom because these firms use their massive shareholdings to compel CEOs to put political motivations above a company’s profits and investors’ returns. Finally, it threatens our personal liberty because these firms are using our money to push their agendas contrary to the best interests of the people whose money they are using! There is a difference between offering an ESG investment option for those investors so inclined, and using other peoples’ non ESG investments to promote ESG shareholder initiatives.

As State Treasurer, I oversee $64.8 billion in cash flow and $16 billion in trust funds on behalf of the citizens of Louisiana. I refuse to invest a penny of our state’s funds with a company that would take food off tables, money out of pockets and jobs away from hardworking Louisianans. My top priority is the monetary best interests of Louisiana’s citizens and the funds I am responsible for investing on their behalf. This requires responsible, financially-sound decision making.

The investment firms we utilize must practice that same fiduciary duty to make their clients’ financial success their paramount priority (rather than political and social agendas embodied in ESG investing). Period.

From: ECowser@treasury.la.gov <ECowser@treasury.la.gov>
Sent: Saturday, October 01, 2022 10:37 AM EDT
To: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; dtmack@treasury.la.gov <dtmack@treasury.la.gov>; NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; TLigi@treasury.la.gov <TLigi@treasury.la.gov>; JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>
Subject: PRESS RELEASE to accompany BLACKROCK LETTER
Attachment(s): "Letter to BlackRock Draft 04.docx","10.05.22 Schroder Louisiana Blackrock press release.docx"

Good morning, Mr. Treasurer,

Please give me a call when you'd like to walk through the letter and this press release.

Nancy has concerns with several statements in the press release that I'll point out to you and you can decide whether to take them out or edit.

I've spoken with the agency that will be helping with national exclusives. I told them I hoped to have drafts to them to review over the weekend so we can aim to release Tues, Wed or Thurs next week.

- Erin

ERIN M. COWSER
PRIVATE SECRETARY TO THE TREASURER
OFFICE OF STATE TREASURER JOHN M. SCHRODER
CELL: (225) 432-9363

Schroder protects Treasury funds from ESG by divesting $724M from BlackRock

BATON ROUGE, LA – Louisiana State Treasurer John M. Schroder announced in a letter to BlackRock, Inc. investment firm CEO Larry Fink that he will divest all Treasury funds from BlackRock. He reported that $560M has been removed to date and that a total of $724M will have been removed by year end.

"This divestment is necessary to protect Louisiana from mandates that aim to cripple our critical energy sector," said Schroder, who serves as incoming chair of the State Financial Officers Foundation. "I refuse to spend a penny of Treasury funds with a company that will take food off tables, money out of pockets and jobs away from hardworking Louisianans."

Schroder said his action is in response to recent reports that BlackRock has urged companies to embrace "net zero" ESG investment strategies that would harm our fossil fuel, which is a critical part of our state's economy. ESG is a term used to describe environmental, social and governance factors.

His letter comes following a meeting with BlackRock representatives, whose statements he said were contradictory to messaging in correspondence by Fink to shareholders and BlackRock's corporate materials.

In the letter Schroder points to an overarching fiduciary duty to investors that BlackRock is failing to meet. "…ESG investing violates Louisiana law on the fiduciary duties which require a sole focus on financial returns for the beneficiaries of state funds," he wrote. "A focus on political or social goals or placing those goals above the duty to enhance investors' returns is unacceptable under Louisiana law."

He stated that he fully realizes that BlackRock does indeed invest in oil and gas companies. However, Schroder asserted that does not counter balance the investment firm's focus on forcing those companies and all others to adopt ESG-friendly practices, whether or not doing so is in the best interest of their clients.

POSSIBLE QUOTE FROM DEREK HERE.

He added that ESG investing is a threat to our country's founding principles because it allows companies like BlackRock to bypass the democratic process and push political agendas without having to go through the ballot box.

"They are pushing their agendas contrary to the best interests of the people whose money they are using!" said Schroder. "This is complete disregard for personal liberty."

Dear Mr. Fink,

I write today on behalf of the hardworking citizens of the great state of Louisiana. I continue to be outraged by BlackRock, Inc.'s blatantly politicized investment practices despite contradictory claims made during a recent meeting with BlackRock representatives. While I appreciate the invitation to meet and look forward to further discussion, I found the statements made by your representatives during the meeting to be outright disingenuous.

Louisiana Treasury will liquidate all BlackRock investments by the end of 2022. To date we have divested $560 million. We are strategically divesting over a period of time so that state money is not lost to the detriment of our citizens. Once accomplished this will reflect $794 million no longer entangled in BlackRock money market funds, mutual funds and exchange-traded funds (ETFs) holdings.

This divestment is necessary to protect Louisiana from mandates that aim to cripple our critical energy sector. Why would we want to support an institution that seeks to destroy one of our most robust assets? In my opinion, ESG investing is inconsistent with the best economic interests and values of Louisiana. In other words, we do not support the hobbling of our own fossil fuels sector.

In addition, according to my legal counsel, ESG investing violates Louisiana law on the fiduciary duties which require a sole focus on financial returns for the beneficiaries of state funds. A focus on political or social goals or placing those goals above the duty to enhance investors' returns is unacceptable under Louisiana law. You should have recently received a letter signed by 19 state attorneys general making the same point.

I fully realize that, as noted by your representatives during our recent meeting, BlackRock does invest in oil and gas companies. Nonetheless, your correspondence (linked below) has also made very clear what BlackRock is demanding from fossil fuel company CEOs.

BlackRock has been very open about its support for ESG investing. Your 2021 letter to CEOs is proof positive that BlackRock's goal is an economy "that emits no more carbon dioxide than it removes from the atmosphere by 2050," which you acknowledge will require "a transformation of the entire economy." You are calling for a "transformation" of our entire economy that will not be made through democratic means. One would ask how you do plan toaccomplish this "transformation." In your own words, you further state,"[b]ehaviors are going to have to change and this is one thing we are asking companies. You have to force behaviors. And at Blackrock, we are forcing behaviors." So much for democracy.

You have admitted that your ESG agenda of forcing behaviors will not increase investor returns. Your 2022 letter to CEOs stated plainly that “We need to be honest about the fact that green products often come at a higher cost.” You don’t need an economist to tell you that high cost/low return environmental policies will reduce a company’s profits – and investors’ returns.

BlackRock charges more for its ESG products and thereby exploits society’s conscience to extract higher fees for its ESG funds. A recent study of U.S. fund fees refers to it as investors in sustainable funds paying “greeniums” compared to conventional fund investors. High fees for huge losses indicate that BlackRock is either not focused on investor returns or that it misread the markets. In fact, Blackrock set a record for “the largest amount of money lost by a single firm over a six-month period” having “lost $1.7 trillion of clients’ money,” associated with ESG accounts, according to a July 20, 2022 Bloomberg article titled “BlackRock Is Breaking the Wrong Kind of Records.”

Under Louisiana law, investors’ returns take precedence.

ESG investing is a threat to our founding principles. It threatens our democracy, economic freedom, and individual liberty. How so? It threatens our democracy because it bypasses the ballot box and allows large investment firms like BlackRock to push political agendas. It threatens our economic freedom because firms like BlackRock uses their massive shares holdings to compel CEOs to put political motivations above a company’s profits and investors returns. Finally, it threatens our personal liberty because firms like BlackRock are using our money to push their agendas contrary to the best interests of the people whose money they are using!

As State Treasurer, I oversee $64.8 billion cash flow and $16 billion in trust funds on behalf of the citizens of Louisiana. I refuse to spend a penny of it with a company that will take food off tables, money out of pockets and jobs away from hardworking Louisianans. The monetary best interests of Louisiana investments is my top priority, enacted with responsible, financially sound decision-making.

Investment firms should practice the same fiduciary duty to make their clients’ financial successes their paramount priority. Period.

From: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>
Sent: Monday, September 19, 2022 1:54 PM EDT
To: JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>
CC: TLigi@treasury.la.gov <TLigi@treasury.la.gov>; NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; bmorton@treasury.la.gov <bmorton@treasury.la.gov>; KHutchison@treasury.la.gov <KHutchison@treasury.la.gov>; EJoubert@treasury.la.gov <EJoubert@treasury.la.gov>
Subject: Re: [Louisiana Treasury] Contact - new submission

TL give me a shout.

Sent from my iPhone

On Sep 18, 2022, at 7:50 PM, John Broussard <JBroussard@treasury.la.gov> wrote:

I think so too

Sent from JB's iPhone

On Sep 18, 2022, at 5:07 PM, Tony Ligi <TLigi@treasury.la.gov> wrote:

JB
Since the request came in late Thursday, I emailed her and told her I would get back with her after review and analysis of her request so that is an option. I wanted to speak with everyone before indicating that to her, but I think it is an appropriate response.
I gave her 9/26 as the date she would hear back from me.
Tony

From: John Broussard
Sent: Sunday, September 18, 2022 12:31 PM
To: John Schroder <JSchroder@treasury.la.gov>
Cc: Tony Ligi <TLigi@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; Ben Morton <bmorton@treasury.la.gov>; Kaila Hutchison <KHutchison@treasury.la.gov>; Emma Joubert <EJoubert@treasury.la.gov>
Subject: Re: [Louisiana Treasury] Contact - new submission

I don't guess we can claim their request was too vague…

Sent from JB's iPhone

On Sep 18, 2022, at 7:54 AM, John Schroder <JSchroder@treasury.la.gov> wrote:

Tony schedule a call w Desie for Monday please.

Sent from my iPhone

On Sep 15, 2022, at 3:33 PM, Tony Ligi <TLigi@treasury.la.gov> wrote:

All
Please see the below public records request. I will get with you tomorrow to discuss.

Here is the meat of it:

Any final assessments, determinations, impact analyses, or evaluations— including, but not limited to, memoranda, opinions, emails, or other informal communications created by, shared with, or otherwise in the possession of your office—regarding the financial impact of divesting from financial institutions, asset managers, or private corporations that have adopted or utilize environmental, social, and governance (ESG) factors in selecting investments.

TONY LIGI
EXECUTIVE COUNSEL
OFFICE OF STATE TREASURER JOHN M. SCHRODER
WORK: (225) 342-0029 | FAX: (225) 342-0064

From: comments
Sent: Thursday, September 15, 2022 2:14 PM
To: Tony Ligi <TLigi@treasury.la.gov>
Subject: FW: [Louisiana Treasury] Contact - new submission

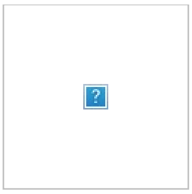
From: Khahilia Shaw <reply-to+94dbe081f193@crm.wix.com>
Sent: Thursday, September 15, 2022 1:21 PM
To: comments <comments@treasury.la.gov>
Subject: [Louisiana Treasury] Contact - new submission

****Verify sender email address/content****

Khahilia Shaw just submitted your form: Contact
onLouisiana Treasury

Message Details:
Dropdown Field:Public Record Request
First Name:Khahilia
Last Name:Shaw
Email:records@americanoversight.org
Phone:(202) 539-6507
Message:VIA WEB PORTAL Louisiana State Capitol Building 900 North Third Street, Third Floor Baton Rouge, LA 70802 Re: Public Records Law Request (LA-TREAS-22-0997) Dear Records Custodian: Pursuant to the Louisiana Public Records Law, La. Rev. Stat. Ann. 44:1 et seq., American Oversight makes the following request for records. Requested Records American Oversight requests that your office produce the following records within three business days: Any final assessments, determinations, impact analyses, or evaluations—including, but not limited to, memoranda, opinions, emails, or other informal communications created by, shared with, or otherwise in the possession of your office—regarding the financial impact of divesting from financial institutions, asset managers, or private corporations that have adopted or utilize environmental, social, and governance (ESG) factors in selecting investments. Please provide all responsive records from January 1, 2020, through the date the search is conducted. Fee Waiver Request In accordance with La. Rev. Stat. Ann. 44:32(C)(2), American Oversight requests a waiver of fees associated with processing this request for records. A waiver of fees for this request is appropriate, because American Oversight's use of the requested records "will be limited to a public purpose." This request is made solely for a public purpose. The public has a significant interest in whether the Louisiana treasury has conducted studies on the financial impact of divesting from financial institutions or private corporations that adopt environmental, social, and governance (ESG) factors in selecting investments. Records with the potential to shed light on this issue would contribute significantly to public understanding of operations of the government, including helping the public understand how the treasury is safeguarding taxpayer funds. American Oversight is committed to transparency and makes the responses agencies provide to public records requests publicly available, and the public's understanding of the government's activities would be enhanced through American Oversight's analysis and publication of these records. Furthermore, this request is fundamentally made for non-commercial purposes. As a 501(c)(3) nonprofit, American Oversight does not have a commercial purpose and the release of the information requested is not in American Oversight's financial interest. American Oversight's mission is to promote transparency in government, to educate the public about government activities, and to ensure the accountability of government officials. American Oversight uses the information gathered, and its analysis of it, to educate the public through reports, press releases, or other media. American Oversight also makes materials it gathers available on its public website and promotes their availability on social media platforms, such as Facebook and Twitter. American Oversight has also demonstrated its commitment to the public disclosure of documents and creation of editorial content through regular substantive analyses posted to its website. Examples reflecting this commitment to the public disclosure of documents and the creation of editorial content include the posting of records and analysis related to the organization's investigations into misconduct and corruption in state governments; posting records and analysis of federal and state governments' responses to the Coronavirus pandemic; posting records received as

part of American Oversight's "Audit the Wall" project to gather and analyze information related to the Trump administration's proposed construction of a barrier along the U.S.-Mexico border, and analyses of what those records reveal; and the posting of records related to an ethics waiver received by a senior Department of Justice attorney and an analysis of what those records demonstrated regarding the Department's process for issuing such waivers. Accordingly, American Oversight qualifies for a fee waiver. Guidance Regarding the Search & Processing of Requested Records In connection with its request for records, American Oversight provides the following guidance regarding the scope of the records sought and the search and processing of records:§ Please search all locations and systems likely to have responsive records, regardless of format, medium, or physical characteristics. § In conducting your search, please understand the terms "record," "document," and "information" in their broadest sense, to include any written, typed, recorded, graphic, printed, or audio material of any kind. We seek records of any kind, including electronic records, audiotapes, videotapes, and photographs, as well as letters, emails, facsimiles, telephone messages, voice mail messages and transcripts, notes, or minutes of any meetings, telephone conversations or discussions.§ Our request for records includes any attachments to those records or other materials enclosed with those records when they were previously transmitted. To the extent that an email is responsive to our request, our request includes all prior messages sent or received in that email chain, as well as any attachments to the email.§ Please search all relevant records or systems containing records regarding agency business. Do not exclude records regarding agency business contained in files, email accounts, or devices in the personal custody of your officials, such as personal email accounts or text messages. Public business communications conducted on private email accounts and devices are public records subject to the Public Records Law. § In the event some portions of the requested records are properly exempt from disclosure, please disclose any reasonably segregable non-exempt portions of the requested records. If a request is denied in whole, please state specifically why it is not reasonable to segregate portions of the record for release.§ Please take appropriate steps to ensure that records responsive to this request are not deleted by the agency before the completion of processing for this request. If records potentially responsive to this request are likely to be located on systems where they are subject to potential deletion, including on a scheduled basis, please take steps to prevent that deletion, including, as appropriate, by instituting a litigation hold on those records. Conclusion If you have any questions regarding how to construe this request for records or believe that further discussions regarding search and processing would facilitate a more efficient production of records of interest to American Oversight, please do not hesitate to contact American Oversight to discuss this request. American Oversight welcomes an opportunity to discuss its request with you before you undertake your search or incur search or duplication costs. By working together at the outset, American Oversight and your agency can decrease the likelihood of costly and time-consuming litigation in the future. Where possible, please provide responsive material in an electronic format by email. Alternatively, please provide responsive material in native format or in PDF format on a USB drive. Please send any responsive material being sent by mail to American Oversight, 1030 15th Street NW, Suite B255, Washington, DC 20005. If it will accelerate release of responsive records to American Oversight, please also provide responsive material on a rolling basis. We share a common mission to promote transparency in government. American Oversight looks forward to working with your agency on this request. If you do not understand any part of this request, please contact Khahilia Shaw atrecords@americanoversight.org or (202) 539-6507. Also, if American Oversight's request for a fee waiver is not granted in full, please contact us immediately upon making such a determination. Sincerely, /s/Khahilia Shaw Khahilia Shaw on behalf of American Oversight



From: JBroussard@treasury.la.gov <JBroussard@treasury.la.gov>
Sent: Thursday, April 14, 2022 8:35 AM EDT
To: JSchroder@treasury.la.gov <JSchroder@treasury.la.gov>; TLigi@treasury.la.gov <TLigi@treasury.la.gov>; NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; KStuart@treasury.la.gov <KStuart@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>; PMatassa@treasury.la.gov <PMatassa@treasury.la.gov>
Subject: RE: AMY MATHEWS has forwarded you an article.

It's good legislation, we like it. Not really sure it works with all of the ALEC agenda. Pecuniary (investment centric factors) vs Non-Pecuniary (non-investment factors) leaves a lot of room to maneuver. For instance, this policy would, in our opinion, allow the retirement systems to say no to a lot of agendas. It basically gets you down to what's best for the members, what's best for the plan. If they can justify something as being not best for the members, not best for the plan, they can say no. Yes, it scuttles the ESG agenda, along with other non-pecuniary agendas.

JOHN BROUSSARD
ASSISTANT STATE TREASURER | CHIEF INVESTMENT OFFICER
OFFICE OF STATE TREASURER JOHN M. SCHRODER
WORK: (225) 342-0013 | FAX: (225) 342-9721

British statesman Winston Churchill once wrote, "Those that fail to learn from history are doomed to repeat it."

From: John Schroder <JSchroder@treasury.la.gov>
Sent: Wednesday, April 13, 2022 11:46 PM
To: John Broussard <JBroussard@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; Kathy Stuart <KStuart@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>
Subject: RE: AMY MATHEWS has forwarded you an article.

Without reading all, what's yourthoughts?

From: John Broussard <JBroussard@treasury.la.gov>
Sent: Wednesday, April 13, 2022 7:26 AM
To: John Schroder <JSchroder@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; Kathy Stuart <KStuart@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>
Subject: FW: AMY MATHEWS has forwarded you an article.

ALEC Model Legislation: https://alec.org/model-policy/state-government-employee-retirement-protection-act/

Conservative Group Seeks to Block State Pensions from ESG Efforts

By Bridget Hickey April 13, 2022

A conservative association of state legislators has launched a new effort to restrict pensions' consideration of environmental and social issues.

The **American Legislative Exchange Council**, or ALEC, last week released newmodel legislation meant as an outline for state lawmakers seeking to bar plan fiduciaries from sacrificing returns or taking on additional investment risk to promote "non-pecuniary or non-financial social, political or other benefits or goals." The model policies also restrict state pensions from casting proxy votes to further such objectives.

The association writes ready-made legislation to be adopted by state legislators. Between 2010 and 2018, its model bills were introduced 2,900 times across all 50 states and in Congress and had a 21% pass rate, according to ALEC, citing an investigation by USA Today, the Arizona Republic, and the Center for Public Integrity.

Countering ESG investing by state pension funds is a driving factor behind the new proposal, the association's chief economist told theWall Street Journal. He argued that state pensions should be banned from "politically driven" investment strategies. ALEC did not respond to an interview request from FundFire.

The new template does not explicitly bar environmental, social, and governance, or ESG, investing, but states that "environmental, social, corporate governance, or other similarly oriented considerations are pecuniary factors only if they present economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories."

The move comes at a time when many state pension boards are grappling with the material risks posed to their portfolios by environmental and social issues. The**California Public Employees' Retirement System**, for example, has calculated that about 20% of its holdings are exposed to physical or transition risk from climate change. The**New York State Common Retirement Fund** is divesting from many of its fossil fuel holdings, citing risks to the financial performance of these investments as the world transitions to a low-carbon economy.

Pensions are also flexing their shareholder muscles on these issues. The **California State Teachers' Retirement System** is pushing companies for better disclosure of key climate metrics and for greater board diversity, asreported.

Maine, in June, became the first U.S. state to require its pension to divest from fossil fuels.

In contrast, some Republican-leaning states that have made moves to punish managers that eschew oil and gas investments, asreported.

Texas passed a law last year to force all state investment funds, including the **Teacher Retirement System of Texas** and the **Texas Permanent School Fund**, to divest from companies that shun fossil fuel investments, as reported.

The challenge for states that pass these types of "anti-ESG" laws is that the ESG has become more and more integrated into the investment universe, said **Josh Lichtenstein**, an ERISA partner at the law firm **Ropes & Gray**.

Long term, if more states adopt these laws, asset managers will either determine that they want to manage that pool of money by launching standalone products or using separately managed accounts, or some state plans will not have access to the full range of investments available to their peers, he said.

"The biggest question is, are these states going to continue to have access to investments or not?"

ALEC's legislative template shares some common language with a rule from the Trump Administration's **Department of Labor** that bound retirement plan fiduciaries to a "pecuniary" standard when making investment decisions.

When first announced, the DOL said the rule would explicitly bar ESG investing for plans sponsors governed by the **Employee Retirement Income Security Act**, also known as ERISA, which includes corporate pensions. However, the DOL appeared to walk back these plans following industry outcry, and the text of the final rule did not prohibit fiduciaries from considering environmental impact and workplace practices when relevant to the financial analysis, as reported.

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It's good legislation, we like it. Not really sure it works with all of the ALEC agenda. Pecuniary (investment centric factors) vs Non-Pecuniary (non-investment factors) leaves a lot of room to maneuver. For instance, this policy would, in our opinion, allow the retirement systems to say no to a lot of agendas. It basically gets you down to what's best for the members, what's best for the plan. If they can justify something as being not best for the members, not best for the plan, they can say no. Yes, it scuttles the ESG agenda, along with other non-pecuniary agendas.

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OFFICE OF STATE TREASURER JOHN M. SCHRODER
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British statesman Winston Churchill once wrote, "Those that fail to learn from history are doomed to repeat it."

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To: Erin Cowser <ECowser@treasury.la.gov>
CC: Desie Thymes Mack <dtmack@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; John Broussard <JBroussard@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Jasmine Tricou <JTricou@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>
Subject: Re: DRAFT Talking Points for ESG
Attachment(s): "image003.jpg","image003.jpg","BlackRock ESG TALKING POINTS.docx"

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Sent from my iPhone

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BlackRock ESG TALKING POINTS

- If companies want to make business decisions based on public policy objectives that elected officials are charged with making, then they should not be surprised when elected officials make public policy decisions that are for the wellbeing of all their constituents.

- BlackRock's stated goals are inconsistent with the economic foundation of Louisiana.

- We are already a state facing tremendous economic challenges and BlackRock wants to make those challenges even more difficult.

- Why should they be allowed to profit while advocating for public policy objectives that hurt our state?

- The people of Louisiana are better served by leaders who make decisions based on the good of the state and BlackRock investors would be better served by leaders who make business decisions for the good of business.

What is ESG?

- Way for corporations to push political agendas
- Environmental, Social and Governance

Is ESG bad?

- Bad when it's being forced down throats
- Bad when will cripple fossil fuels
- Bad bc bypasses ballot box
- Bad bc using OUR $ to push THEIR agenda
- Not necessarily bad in concept
    - LA Energy Sector will transform itself
    - Should allow to occur w/business leading
    - NOT when forced to do so

How much have you divested?

- $560 Million to date
- $794 Million by end of the year
- ALL BlackRock Treasury funds

Will this cost LA money?

- No, strategic divestment over time
- ESG funds have been outperformed
- They cost more, deliver less

Why are you doing this?

- Why spend LA $ with company
  that wants to crush our fossil fuel industry?
- Food off tables, $ from pockets and jobs away

Is ESG illegal?

- Legal advisors and experts say YES
- Fiduciary duty - investors' returns
- Putting ESG motivations above
- Violates LA law

Doesn't BlackRock invest in oil & gas?

- Not enough to counter their ESG demands

Why just divesting BlackRock?

Why letter to Fink?

- Boasts about "forcing behaviors"
- Paying "Greeniums"
- Doesn't make financial sense

Why is SFOF involved?

- Affect change collectively
- 23 Treasurers, $3 TRILLION
- Focus on State decision-making

How did you get involved?

- Cut our teeth – 2nd Amend
- SBC – instits trying to strip rights

What else can be done about ESG?

- Educate people on what it is
- Hosted ESG Summit for Legislators

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On Oct 4, 2022, at 3:12 PM, Erin Cowser <ECowser@treasury.la.gov> wrote:

BlackRock ESG TALKING POINTS

- If companies want to make business decisions based on public policy objectives that elected officials are charged with making, then they should not be surprised when elected officials make public policy decisions that are for the wellbeing of all their constituents.

- BlackRock's stated goals are inconsistent with the economic foundation of Louisiana.

- We are already a state facing tremendous economic challenges and BlackRock wants to make those challenges even more difficult.

- Why should they be allowed to profit while advocating for public policy objectives that hurt our state?

- The people of Louisiana are better served by leaders who make decisions based on the good of the state and BlackRock investors would be better served by leaders who make business decisions for the good of business.

What is ESG?

- Way for corporations to push political agendas
- Environmental, Social and Governance

Is ESG bad?

- Bad when it's being forced down throats
- Bad when will cripple fossil fuels
- Bad bc bypasses ballot box
- Bad bc using OUR $ to push THEIR agenda
- Not necessarily bad in concept
    - LA Energy Sector will transform itself
    - Should allow to occur w/business leading
    - NOT when forced to do so

How much have you divested?

- $560 Million to date
- $794 Million by end of the year
- ALL BlackRock Treasury funds

Will this cost LA money?

- No, strategic divestment over time
- ESG funds have been outperformed
- They cost more, deliver less

Why are you doing this?

- Why spend LA $ with company
  that wants to crush our fossil fuel industry?
- Food off tables, $ from pockets and jobs away

Is ESG illegal?

- Legal advisors and experts say YES
- Fiduciary duty - investors' returns
- Putting ESG motivations above
- Violates LA law

Doesn't BlackRock invest in oil & gas?

- Not enough to counter their ESG demands

Why just divesting BlackRock?

Why letter to Fink?

- Boasts about "forcing behaviors"
- Paying "Greeniums"
- Doesn't make financial sense

Why is SFOF involved?

- Affect change collectively
- 23 Treasurers, $3 TRILLION
- Focus on State decision-making

How did you get involved?

- Cut our teeth – 2nd Amend
- SBC – instits trying to strip rights

What else can be done about ESG?

- Educate people on what it is
- Hosted ESG Summit for Legislators

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CC: dtmack@treasury.la.gov <dtmack@treasury.la.gov>; NKeaton@treasury.la.gov <NKeaton@treasury.la.gov>; RKincaid@treasury.la.gov <RKincaid@treasury.la.gov>; PMatassa@treasury.la.gov <PMatassa@treasury.la.gov>; RFree@treasury.la.gov <RFree@treasury.la.gov>; TLigi@treasury.la.gov <TLigi@treasury.la.gov>
Subject: The Actual Blackrock Letter To CEOs Regarding Net Zero
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He runs the world's largest investment management firm. What he is really talking is about the investment opportunity this movement presents. Some will be winners, some will be losers. That's really what all investment opportunities are.

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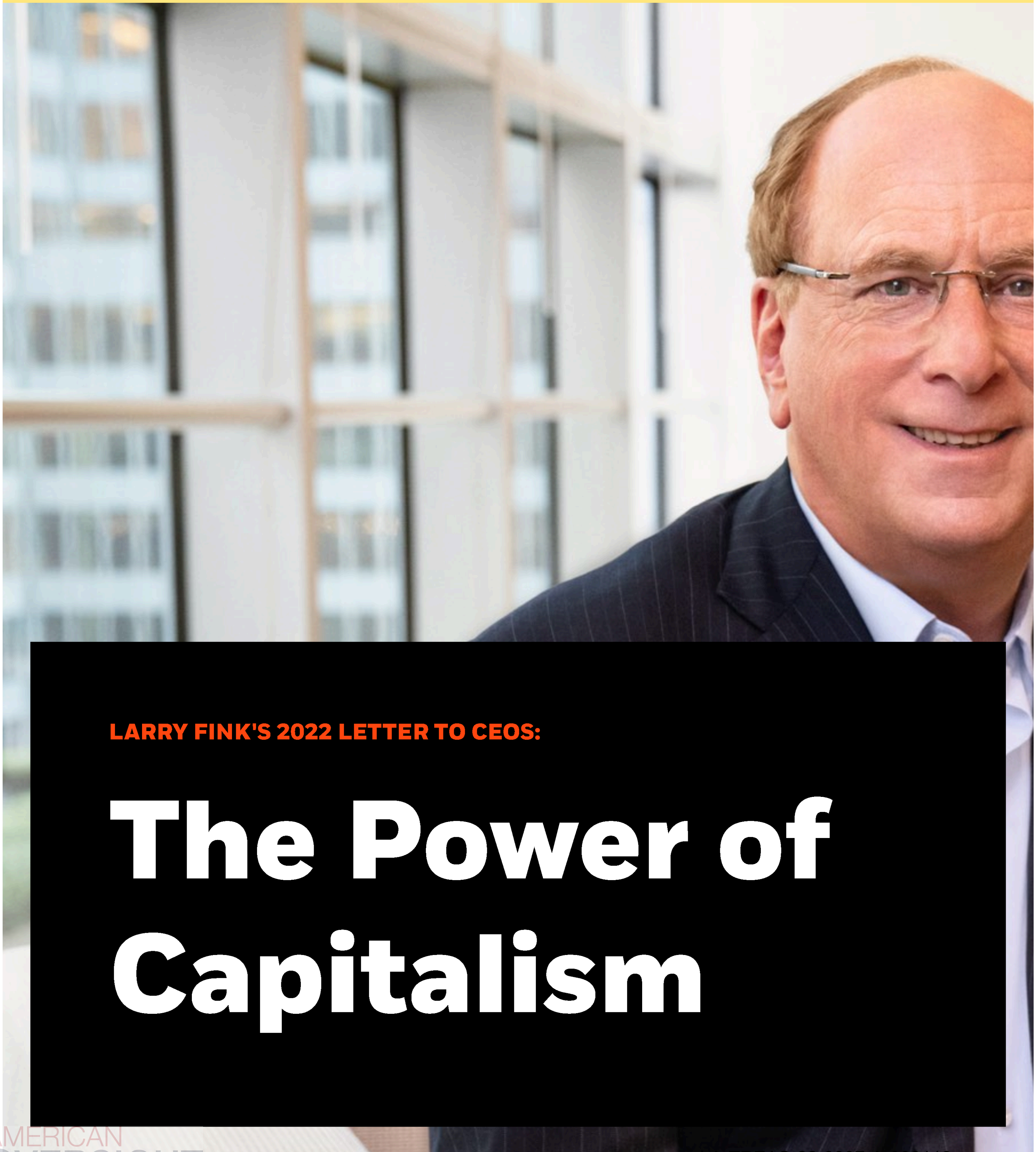
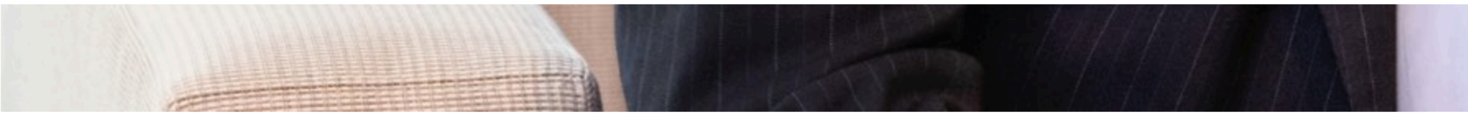


LARRY FINK'S 2022 LETTER TO CEOS:

The Power of Capitalism



Dear CEO,

Each year I make it a priority to write to you on behalf of BlackRock's clients, who are shareholders in your company. The majority of our clients are investing to finance retirement. Their time horizons can span decades.

The financial security we seek to help our clients achieve is not created overnight. It is a long-term endeavor, and we take a long-term approach. That is why, for the past decade, I have written to you, as CEOs and Chairs of the companies our clients are invested in. **I write these letters as a fiduciary for our clients who entrust us to manage their assets – to highlight the themes that I believe are vital to driving durable long-term returns and to helping them reach their goals.**

When my partners and I founded BlackRock as a startup 34 years ago, I had no experience running a company. Over the past three decades, I've had the opportunity to talk with countless CEOs and to learn what distinguishes truly great companies. Time and again, what they all share is that they have a clear sense of purpose; consistent values; and, crucially, they recognize the importance of engaging with and delivering for their key stakeholders. This is the foundation of stakeholder capitalism.

Stakeholder capitalism is not about politics. It is not a social or ideological agenda. It is not "woke." *It is capitalism*, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to *prosper*. This is the power of capitalism.

In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders. It is through effective stakeholder capitalism that capital is efficiently allocated, companies achieve durable profitability, and value is created and sustained over the long-term. Make no mistake, the fair pursuit of profit is still what animates markets; and long-term profitability is the measure by which markets will ultimately determine your company's success.

At the foundation of capitalism is the process of constant reinvention – how companies must continually evolve as the world around them changes or risk being replaced by new competitors. **The pandemic has turbocharged an evolution in the operating environment for virtually every company.** It's changing how people work and how consumers buy. It's creating new businesses and destroying others. Most notably, it's dramatically accelerating how technology is reshaping life and business. Innovative companies looking to adapt to this environment have easier access to capital to realize their visions than ever before. And the relationship between a company, its employees, and society is being redefined.

COVID-19 has also deepened the erosion of trust in traditional institutions and exacerbated polarization in many Western societies. This polarization presents a host of new challenges for CEOs. Political activists, or the media, may politicize things your company does. They may hijack your brand to advance their own agendas. In this environment, facts themselves are frequently in dispute, but businesses have an opportunity to lead. Employees are increasingly looking to their employer as the most trusted, competent, and ethical source of information – more so than government, the media, and NGOs.

That is why your voice is more important than ever. **It's never been more essential for CEOs to have a consistent voice, a clear purpose, a coherent strategy, and a long-term view. Your company's purpose is its north star in this tumultuous environment.** The stakeholders your company relies upon to deliver profits for shareholders need to hear directly from you – to be engaged and inspired by you. They don't want to hear us, as CEOs, opine on every issue of the day, but they do need to know where we stand on the societal issues intrinsic to our companies' long-term success.

> **Putting your company's purpose at the foundation of your relationships with your stakeholders is critical to long-term success.**

Putting your company's purpose at the foundation of your relationships with your stakeholders is critical to long-term success. Employees need to understand and connect with your purpose; and when they do, they can be your staunchest advocates. Customers want to see and hear what you stand for as they increasingly look to do business with companies that share their values. And shareholders need to understand the guiding principle driving your vision and mission. They will be more likely to support you in difficult moments if they have a clear understanding of your strategy and what is behind it.

A new world of work

No relationship has been changed more by the pandemic than the one between employers and employees. The quit rate in the US and the UK is at historic highs. And in the US, we are seeing some of the highest wage growth in decades. Workers seizing new opportunities is a good thing: It demonstrates their confidence in a growing economy.

While turnover and rising pay are not a feature of every region or sector, employees across the globe are looking for more from their employer – including more flexibility and more meaningful work. As companies rebuild themselves coming out of the pandemic, CEOs face a profoundly different paradigm than we are used to. Companies expected workers to come to the office five days a week. Mental health was rarely discussed in the workplace. And wages for those on low and middle incomes barely grew.

That world is gone.

Workers demanding more from their employers is an essential feature of effective capitalism. It drives prosperity and creates a more competitive landscape for talent, pushing companies to create better, more innovative environments for their employees – actions that will help them achieve greater profits for their shareholders. Companies that deliver are reaping the rewards. Our research shows that companies who forged strong bonds with their employees have seen lower levels of turnover and higher returns through the pandemic.[1]

Companies not adjusting to this new reality and responding to their workers do so at their own peril. Turnover drives up expenses, drives down productivity, and erodes culture and corporate memory. CEOs need to be asking themselves whether they are creating an environment that helps them compete for talent. At BlackRock we are doing the same: working with our own employees to navigate this new world of work.

Creating that environment is more complex than ever and reaches beyond issues of pay and flexibility. In addition to upending our relationship with where we physically work, the pandemic also shone a light on issues like racial equity, childcare, and mental health – and revealed the gap between generational expectations at work. These themes are now center stage for CEOs, who must be thoughtful about how they use their voice and connect on social issues important to their employees. Those who show humility and stay grounded in their purpose are more likely to build the kind of bond that endures the span of someone's career.

At BlackRock, we want to understand how this trend is impacting your industry and your company. What are you doing to deepen the bond with your employees? How are you ensuring that employees of all backgrounds feel safe enough to maximize their creativity, innovation, and productivity? How are you ensuring your board has the right oversight of these critical issues? Where and how we work will never be the same as it was. How is your company's culture adapting to this new world?

New sources of capital fueling market disruption

Over the past four decades, we have seen an explosion in the availability of capital. Today, global financial assets total $400 trillion.[2] This exponential growth brings with it risks and opportunities for investors and companies alike, and it means that banks alone are no longer the gatekeepers to funding.

Young, innovative companies have never had easier access to capital. **Never has there been more money available for new ideas to become reality. This is fueling a dynamic landscape of innovation.** It means that virtually every sector has an abundance of disruptive startups trying to topple market leaders. CEOs of established companies need to understand this changing landscape and the diversity of available capital if they want to stay competitive in the face of smaller, more nimble businesses.

BlackRock wants to see the companies we invest in for our clients evolve and grow so that they generate attractive returns for decades to come. As long-term investors, we are committed to working with companies from all industries. But we too must be nimble and ensure our clients' assets are invested, consistent with their goals, in the most dynamic companies – whether startups or established players – with the best chances at succeeding over time. As capitalists and as stewards, that's our job.

I believe in capitalism's ability to help individuals achieve better futures, to drive innovation, to build resilient economies, and to solve some of our most intractable challenges. **Capital**

markets have allowed companies and countries to flourish. But access to capital is not a right. It is a privilege. And the duty to attract that capital in a responsible and sustainable way lies with you.

Capitalism and sustainability

Most stakeholders – from shareholders, to employees, to customers, to communities, and regulators – now expect companies to play a role in decarbonizing the global economy. Few things will impact capital allocation decisions – and thereby the long-term value of your company – more than how effectively you navigate the global energy transition in the years ahead.

It's been two years since I wrote that climate risk is investment risk. And in that short period, we have seen a tectonic shift of capital.[3] Sustainable investments have now reached $4 trillion.[4] Actions and ambitions towards decarbonization have also increased. This is just the beginning – the tectonic shift towards sustainable investing is still accelerating. Whether it is capital being deployed into new ventures focused on energy innovation, or capital transferring from traditional indexes into more customized portfolios and products, we will see more money in motion.

Every company and every industry will be transformed by the transition to a net zero world. The question is, will you lead, or will you be led?

In a few short years, we have all watched innovators reimagine the auto industry. And today, every car manufacturer is racing toward an electric future. The auto industry, however, is merely on the leading edge – every sector will be transformed by new, sustainable technology.

Engineers and scientists are working around the clock on how to decarbonize cement, steel, and plastics; shipping, trucking, and aviation; agriculture, energy, and construction. I believe the decarbonizing of the global economy is going to create the greatest investment opportunity of our lifetime. It will also leave behind the companies that don't adapt, regardless of what industry they are in. And just as some companies risk being left behind, so do cities and countries that don't plan for the future. They risk losing jobs, even as other places gain them. The decarbonization of the economy will be accompanied by enormous job creation for those that engage in the necessary long-term planning.

The next 1,000 unicorns won't be search engines or social media companies, they'll be sustainable, scalable innovators – startups that help the world decarbonize and make the energy transition affordable for all consumers. We need to be honest about the fact that green products often come at a higher cost today. Bringing down this green premium will be essential for an orderly and just transition. With the unprecedented amount of capital looking for new ideas, incumbents need to be clear about their pathway succeeding in a net zero economy. And it's not just startups that can and will disrupt industries. Bold incumbents can and must do it too. Indeed, many incumbents have an advantage in capital, market knowledge, and technical expertise on the global scale required for the disruption ahead.

Our question to these companies is: what are you doing to disrupt your business? How are you preparing for and participating in the net zero transition? As your industry gets transformed by the energy transition, will you go the way of the dodo, or will you be a phoenix?

We focus on sustainability not because we're environmentalists, but because we are capitalists and fiduciaries to our clients.

We focus on sustainability not because we're environmentalists, but because we are capitalists and fiduciaries to our clients. That requires understanding how companies are adjusting their businesses for the massive changes the economy is undergoing. As part of that focus, we are asking companies to set short-, medium-, and long-term targets for greenhouse gas reductions. These targets, and the quality of plans to meet them, are critical to the long-term economic interests of your shareholders. It's also why we ask you to issue reports consistent with the Task Force on Climate-related Financial Disclosures (TCFD): because we believe these are essential tools for understanding a company's ability to adapt for the future.

The transition to net zero is already uneven with different parts of the global economy moving at different speeds. It will not happen overnight. We need to pass through shades of brown to shades of green. For example, to ensure continuity of affordable energy supplies during the transition, traditional fossil fuels like natural gas will play an important role both for power generation and heating in certain regions, as well as for the production of hydrogen.

The pace of change will be very different in developing and developed countries. But all markets will require unprecedented investment in decarbonization technology. We need transformative discoveries on a level with the electric light bulb, and we need to foster investment in them so that they are scalable and affordable.

As we pursue these ambitious goals - which will take time - governments and companies must ensure that people continue to have access to reliable and affordable energy sources. This is the only way we will create a green economy that is fair and just and avoid societal discord. And any plan that focuses solely on limiting supply and fails to address demand for hydrocarbons will drive up energy prices for those who can least afford it, resulting in greater polarization around climate change and eroding progress.

Divesting from entire sectors – or simply passing carbon-intensive assets from public markets to private markets – will not get the world to net zero. And BlackRock does not pursue divestment from oil and gas companies as a policy. We do have some clients who choose to divest their assets while other clients reject that approach. Foresighted companies across a wide range of carbon intensive sectors are transforming their businesses, and their actions are a critical part of decarbonization. We believe the companies leading the transition present a vital investment opportunity for our clients and driving capital towards these phoenixes will be essential to achieving a net zero world.

> **Capitalism has the power to shape society and act as a powerful catalyst for change.**

Capitalism has the power to shape society and act as a powerful catalyst for change. But businesses can't do this alone, and they cannot be the climate police. That will not be a good outcome for society. We need governments to provide clear pathways and a consistent taxonomy for sustainability policy, regulation, and disclosure across markets. They must also support communities affected by the transition, help catalyze capital for the emerging markets, and invest in the innovation and technology that will be essential to decarbonizing the global economy.

It was the partnership between government and the private sector that led to the development of COVID-19 vaccines in record time. **When we harness the power of both the public and private sectors, we can achieve truly incredible things. This is what we must do to get to net zero.**

Empowering clients with choice on ESG votes

Stakeholder capitalism is all about delivering long-term, durable returns for shareholders. And transparency around your company's planning for a net zero world is an important element of that. But it's just one of many disclosures we and other investors ask companies to make. As stewards of our clients' capital, we ask businesses to demonstrate how they're going to deliver on their responsibility to shareholders, including through sound environmental, social, and governance practices and policies.

In 2018, I wrote that we would double the size of our stewardship team and it remains the largest in the industry. We've built this team so we can understand your company's progress throughout the year, not just during proxy season. It's up to you to chart your own course and to tell us how you're moving forward. We seek to understand the full range of issues that you face, not just the ones on the ballot – and that includes your long-term strategy.

Just as other stakeholders are adjusting their relationships with companies, many people are rethinking their relationships with companies as shareholders. We see a growing interest among shareholders – including among our own clients – in the corporate governance of public companies.

That is why we are pursuing an initiative to use technology to give more of our clients the option to have a say in how proxy votes are cast at companies their money is invested in. **We now offer this option to certain institutional clients, including pension funds that support 60 million people.** We are working to expand that universe.

We are committed to a future where every investor – even individual investors – can have the option to participate in the proxy voting process if they choose.

We know there are significant regulatory and logistical hurdles to achieving this today, but we believe this could bring more democracy and more voices to capitalism. Every investor deserves the right to be heard. We will continue to pursue innovation and work with other market participants and regulators to help advance this vision toward reality.

Of course, many corporate leaders are responsible for overseeing equity assets, whether through employee pension funds, corporate treasury accounts, or other investments your company makes. **I encourage you to ask that your asset manager gives you the opportunity to participate in the proxy voting process more directly.**

BlackRock's Investment Stewardship team remains core to our fiduciary approach, and many of our clients prefer that the team continues to engage and execute voting on their behalf. But fundamentally, clients should at least be given the choice and chance to participate in voting more directly.

Our conviction at BlackRock is that companies perform better when they are deliberate about their role in society and act in the interests of their employees, customers, communities, and their shareholders.

However, we also believe that there is still much to learn about how a company's relationship with stakeholders impacts long-term value. **That's why we are launching a Center for Stakeholder Capitalism, to create a forum for research, dialogue, and debate. It will help us to further explore the relationships between companies and their stakeholders and between stakeholder engagement and shareholder value.** We will bring together leading CEOs, investors, policy experts, and academics to share their experience and deliver their insights.

Delivering on the competing interests of a company's many divergent stakeholders is not easy. As a CEO, I know this firsthand. In this polarized world, CEOs will invariably have one set of stakeholders demanding that we do one thing, while another set of stakeholders demand that we do just the opposite.

That is why it is more important than ever that your company and its management be guided by its purpose. If you stay true to your company's purpose and focus on the long term, while adapting to this new world around us, you will deliver durable returns for shareholders and help realize the power of capitalism for all.

Sincerely,

Larry Fink

Chairman and Chief Executive Officer

› **Read bio**

Where we stand

ABOUT US

Ask bigger questions: our purpose in action

SUSTAINABILITY

From ambition to action: the path to net zero

STEWARDSHIP

Using our voice as shareholders: 2022 stewardship global principles

Prior letters

2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2012

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Social Impact

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BlackRock.

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[1] *Kushel R., Van Nostrand E., Weinberg C., Paul V., Tran Q., Kazdin J., Schwaiger K., Basu D., Segafredo L., Dieterich C., Seeking outperformance through sustainable insights, BlackRock, October 2021, page 8.*

[2] Crossing the horizon: North American asset management in the 2020s, McKinsey & Company, October 2021, page 34.

[3] Sustainability: The tectonic shift transforming investing, BlackRock, February 2020.

[4] Sources: Morningstar, Simfund, Broadridge. Data includes Sustainable Mutual Fund, ETF, Institutional and Alternative AUM, as defined by third party data sources, excluding integration/engagement flags. MF and ETF data as of Oct '21, Institutional & Alternatives data as of Jun '21.

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Sent: Tuesday, January 25, 2022 11:02 AM EST
To: John Schroder <JSchroder@treasury.la.gov>
CC: Desie Thymes Mack <dtmack@treasury.la.gov>; Nancy Keaton <NKeaton@treasury.la.gov>; Rachel Kincaid <RKincaid@treasury.la.gov>; Pamela Matassa <PMatassa@treasury.la.gov>; Renee Free <RFree@treasury.la.gov>; Tony Ligi <TLigi@treasury.la.gov>
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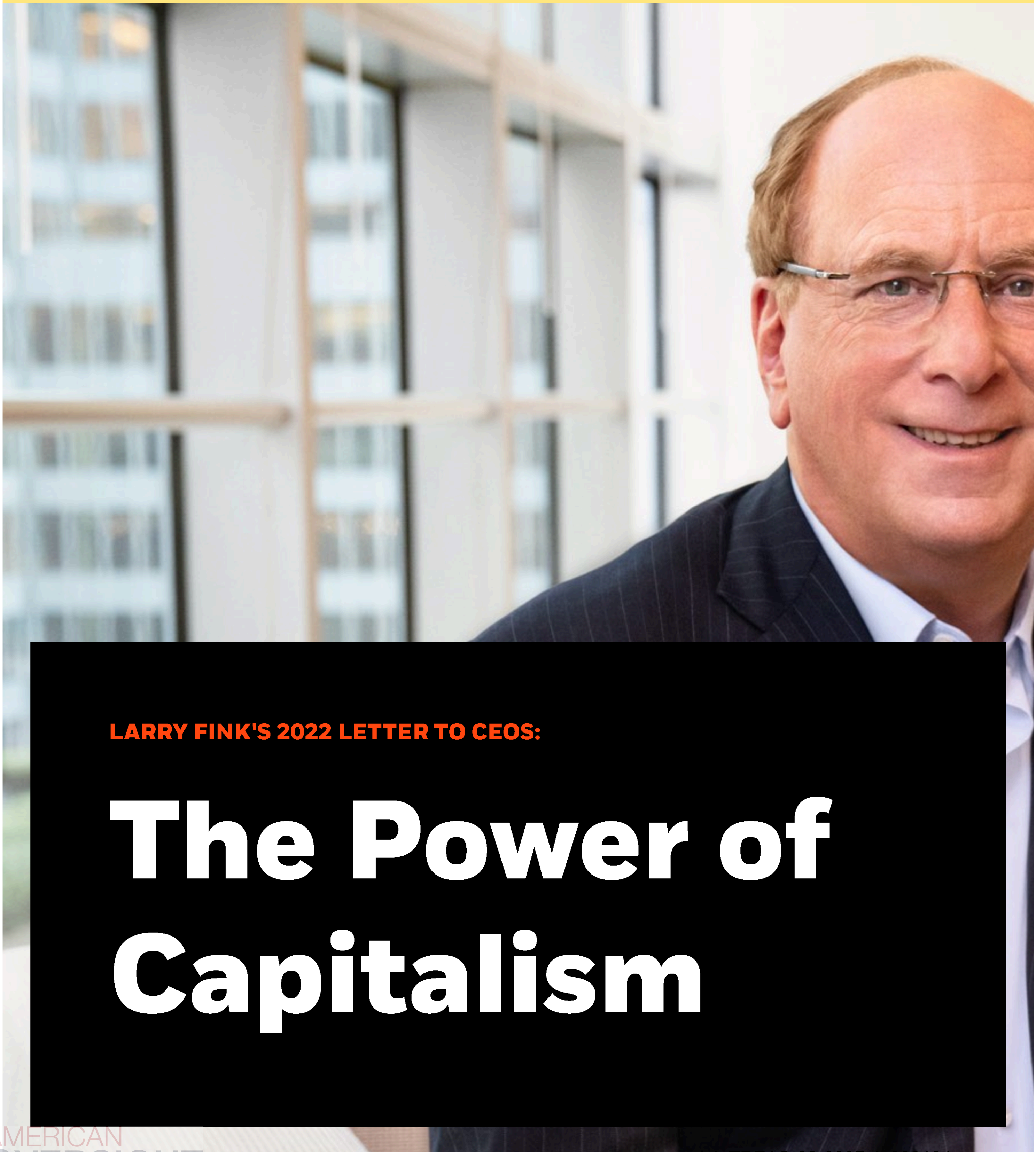

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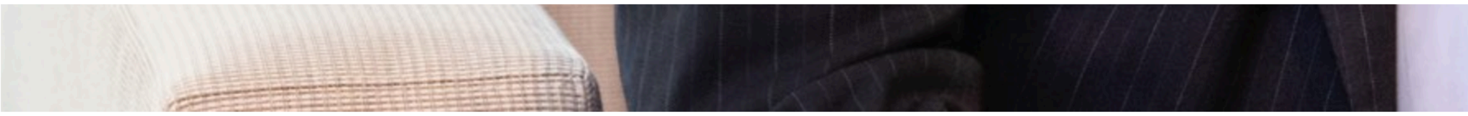

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When my partners and I founded BlackRock as a startup 34 years ago, I had no experience running a company. Over the past three decades, I've had the opportunity to talk with countless CEOs and to learn what distinguishes truly great companies. Time and again, what they all share is that they have a clear sense of purpose; consistent values; and, crucially, they recognize the importance of engaging with and delivering for their key stakeholders. This is the foundation of stakeholder capitalism.

Stakeholder capitalism is not about politics. It is not a social or ideological agenda. It is not "woke." *It is capitalism*, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to *prosper*. This is the power of capitalism.

In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders. It is through effective stakeholder capitalism that capital is efficiently allocated, companies achieve durable profitability, and value is created and sustained over the long-term. Make no mistake, the fair pursuit of profit is still what animates markets; and long-term profitability is the measure by which markets will ultimately determine your company's success.

At the foundation of capitalism is the process of constant reinvention – how companies must continually evolve as the world around them changes or risk being replaced by new competitors. **The pandemic has turbocharged an evolution in the operating environment for virtually every company.** It's changing how people work and how consumers buy. It's creating new businesses and destroying others. Most notably, it's dramatically accelerating how technology is reshaping life and business. Innovative companies looking to adapt to this environment have easier access to capital to realize their visions than ever before. And the relationship between a company, its employees, and society is being redefined.

COVID-19 has also deepened the erosion of trust in traditional institutions and exacerbated polarization in many Western societies. This polarization presents a host of new challenges for CEOs. Political activists, or the media, may politicize things your company does. They may hijack your brand to advance their own agendas. In this environment, facts themselves are frequently in dispute, but businesses have an opportunity to lead. Employees are increasingly looking to their employer as the most trusted, competent, and ethical source of information – more so than government, the media, and NGOs.

That is why your voice is more important than ever. **It's never been more essential for CEOs to have a consistent voice, a clear purpose, a coherent strategy, and a long-term view. Your company's purpose is its north star in this tumultuous environment.** The stakeholders your company relies upon to deliver profits for shareholders need to hear directly from you – to be engaged and inspired by you. They don't want to hear us, as CEOs, opine on every issue of the day, but they do need to know where we stand on the societal issues intrinsic to our companies' long-term success.

> **Putting your company's purpose at the foundation of your relationships with your stakeholders is critical to long-term success.**

Putting your company's purpose at the foundation of your relationships with your stakeholders is critical to long-term success. Employees need to understand and connect with your purpose; and when they do, they can be your staunchest advocates. Customers want to see and hear what you stand for as they increasingly look to do business with companies that share their values. And shareholders need to understand the guiding principle driving your vision and mission. They will be more likely to support you in difficult moments if they have a clear understanding of your strategy and what is behind it.

A new world of work

No relationship has been changed more by the pandemic than the one between employers and employees. The quit rate in the US and the UK is at historic highs. And in the US, we are seeing some of the highest wage growth in decades. Workers seizing new opportunities is a good thing: It demonstrates their confidence in a growing economy.

While turnover and rising pay are not a feature of every region or sector, employees across the globe are looking for more from their employer – including more flexibility and more meaningful work. As companies rebuild themselves coming out of the pandemic, CEOs face a profoundly different paradigm than we are used to. Companies expected workers to come to the office five days a week. Mental health was rarely discussed in the workplace. And wages for those on low and middle incomes barely grew.

That world is gone.

Workers demanding more from their employers is an essential feature of effective capitalism. It drives prosperity and creates a more competitive landscape for talent, pushing companies to create better, more innovative environments for their employees – actions that will help them achieve greater profits for their shareholders. Companies that deliver are reaping the rewards. Our research shows that companies who forged strong bonds with their employees have seen lower levels of turnover and higher returns through the pandemic.[1]

Companies not adjusting to this new reality and responding to their workers do so at their own peril. Turnover drives up expenses, drives down productivity, and erodes culture and corporate memory. CEOs need to be asking themselves whether they are creating an environment that helps them compete for talent. At BlackRock we are doing the same: working with our own employees to navigate this new world of work.

Creating that environment is more complex than ever and reaches beyond issues of pay and flexibility. In addition to upending our relationship with where we physically work, the pandemic also shone a light on issues like racial equity, childcare, and mental health – and revealed the gap between generational expectations at work. These themes are now center stage for CEOs, who must be thoughtful about how they use their voice and connect on social issues important to their employees. Those who show humility and stay grounded in their purpose are more likely to build the kind of bond that endures the span of someone's career.

At BlackRock, we want to understand how this trend is impacting your industry and your company. What are you doing to deepen the bond with your employees? How are you ensuring that employees of all backgrounds feel safe enough to maximize their creativity, innovation, and productivity? How are you ensuring your board has the right oversight of these critical issues? Where and how we work will never be the same as it was. How is your company's culture adapting to this new world?

New sources of capital fueling market disruption

Over the past four decades, we have seen an explosion in the availability of capital. Today, global financial assets total $400 trillion.[2] This exponential growth brings with it risks and opportunities for investors and companies alike, and it means that banks alone are no longer the gatekeepers to funding.

Young, innovative companies have never had easier access to capital. **Never has there been more money available for new ideas to become reality. This is fueling a dynamic landscape of innovation.** It means that virtually every sector has an abundance of disruptive startups trying to topple market leaders. CEOs of established companies need to understand this changing landscape and the diversity of available capital if they want to stay competitive in the face of smaller, more nimble businesses.

BlackRock wants to see the companies we invest in for our clients evolve and grow so that they generate attractive returns for decades to come. As long-term investors, we are committed to working with companies from all industries. But we too must be nimble and ensure our clients' assets are invested, consistent with their goals, in the most dynamic companies – whether startups or established players – with the best chances at succeeding over time. As capitalists and as stewards, that's our job.

I believe in capitalism's ability to help individuals achieve better futures, to drive innovation, to build resilient economies, and to solve some of our most intractable challenges. **Capital**

markets have allowed companies and countries to flourish. But access to capital is not a right. It is a privilege. And the duty to attract that capital in a responsible and sustainable way lies with you.

Capitalism and sustainability

Most stakeholders – from shareholders, to employees, to customers, to communities, and regulators – now expect companies to play a role in decarbonizing the global economy. Few things will impact capital allocation decisions – and thereby the long-term value of your company – more than how effectively you navigate the global energy transition in the years ahead.

It's been two years since I wrote that climate risk is investment risk. And in that short period, we have seen a tectonic shift of capital.[3] Sustainable investments have now reached $4 trillion.[4] Actions and ambitions towards decarbonization have also increased. This is just the beginning – the tectonic shift towards sustainable investing is still accelerating. Whether it is capital being deployed into new ventures focused on energy innovation, or capital transferring from traditional indexes into more customized portfolios and products, we will see more money in motion.

Every company and every industry will be transformed by the transition to a net zero world. The question is, will you lead, or will you be led?

In a few short years, we have all watched innovators reimagine the auto industry. And today, every car manufacturer is racing toward an electric future. The auto industry, however, is merely on the leading edge – every sector will be transformed by new, sustainable technology.

Engineers and scientists are working around the clock on how to decarbonize cement, steel, and plastics; shipping, trucking, and aviation; agriculture, energy, and construction. I believe the decarbonizing of the global economy is going to create the greatest investment opportunity of our lifetime. It will also leave behind the companies that don't adapt, regardless of what industry they are in. And just as some companies risk being left behind, so do cities and countries that don't plan for the future. They risk losing jobs, even as other places gain them. The decarbonization of the economy will be accompanied by enormous job creation for those that engage in the necessary long-term planning.

The next 1,000 unicorns won't be search engines or social media companies, they'll be sustainable, scalable innovators – startups that help the world decarbonize and make the energy transition affordable for all consumers. We need to be honest about the fact that green products often come at a higher cost today. Bringing down this green premium will be essential for an orderly and just transition. With the unprecedented amount of capital looking for new ideas, incumbents need to be clear about their pathway succeeding in a net zero economy. And it's not just startups that can and will disrupt industries. Bold incumbents can and must do it too. Indeed, many incumbents have an advantage in capital, market knowledge, and technical expertise on the global scale required for the disruption ahead.

Our question to these companies is: what are you doing to disrupt your business? How are you preparing for and participating in the net zero transition? As your industry gets transformed by the energy transition, will you go the way of the dodo, or will you be a phoenix?

> **We focus on sustainability not because we're environmentalists, but because we are capitalists and fiduciaries to our clients.**

We focus on sustainability not because we're environmentalists, but because we are capitalists and fiduciaries to our clients. That requires understanding how companies are adjusting their businesses for the massive changes the economy is undergoing. As part of that focus, we are asking companies to set short-, medium-, and long-term targets for greenhouse gas reductions. These targets, and the quality of plans to meet them, are critical to the long-term economic interests of your shareholders. It's also why we ask you to issue reports consistent with the Task Force on Climate-related Financial Disclosures (TCFD): because we believe these are essential tools for understanding a company's ability to adapt for the future.

The transition to net zero is already uneven with different parts of the global economy moving at different speeds. It will not happen overnight. We need to pass through shades of brown to shades of green. For example, to ensure continuity of affordable energy supplies during the transition, traditional fossil fuels like natural gas will play an important role both for power generation and heating in certain regions, as well as for the production of hydrogen.

The pace of change will be very different in developing and developed countries. But all markets will require unprecedented investment in decarbonization technology. We need transformative discoveries on a level with the electric light bulb, and we need to foster investment in them so that they are scalable and affordable.

As we pursue these ambitious goals - which will take time - governments and companies must ensure that people continue to have access to reliable and affordable energy sources. This is the only way we will create a green economy that is fair and just and avoid societal discord. And any plan that focuses solely on limiting supply and fails to address demand for hydrocarbons will drive up energy prices for those who can least afford it, resulting in greater polarization around climate change and eroding progress.

Divesting from entire sectors – or simply passing carbon-intensive assets from public markets to private markets – will not get the world to net zero. And BlackRock does not pursue divestment from oil and gas companies as a policy. We do have some clients who choose to divest their assets while other clients reject that approach. Foresighted companies across a wide range of carbon intensive sectors are transforming their businesses, and their actions are a critical part of decarbonization. We believe the companies leading the transition present a vital investment opportunity for our clients and driving capital towards these phoenixes will be essential to achieving a net zero world.

> **Capitalism has the power to shape society and act as a powerful catalyst for change.**

Capitalism has the power to shape society and act as a powerful catalyst for change. But businesses can't do this alone, and they cannot be the climate police. That will not be a good outcome for society. We need governments to provide clear pathways and a consistent taxonomy for sustainability policy, regulation, and disclosure across markets. They must also support communities affected by the transition, help catalyze capital for the emerging markets, and invest in the innovation and technology that will be essential to decarbonizing the global economy.

It was the partnership between government and the private sector that led to the development of COVID-19 vaccines in record time. **When we harness the power of both the public and private sectors, we can achieve truly incredible things. This is what we must do to get to net zero.**

Empowering clients with choice on ESG votes

Stakeholder capitalism is all about delivering long-term, durable returns for shareholders. And transparency around your company's planning for a net zero world is an important element of that. But it's just one of many disclosures we and other investors ask companies to make. As stewards of our clients' capital, we ask businesses to demonstrate how they're going to deliver on their responsibility to shareholders, including through sound environmental, social, and governance practices and policies.

In 2018, I wrote that we would double the size of our stewardship team and it remains the largest in the industry. We've built this team so we can understand your company's progress throughout the year, not just during proxy season. It's up to you to chart your own course and to tell us how you're moving forward. We seek to understand the full range of issues that you face, not just the ones on the ballot – and that includes your long-term strategy.

Just as other stakeholders are adjusting their relationships with companies, many people are rethinking their relationships with companies as shareholders. We see a growing interest among shareholders – including among our own clients – in the corporate governance of public companies.

That is why we are pursuing an initiative to use technology to give more of our clients the option to have a say in how proxy votes are cast at companies their money is invested in. **We now offer this option to certain institutional clients, including pension funds that support 60 million people.** We are working to expand that universe.

We are committed to a future where every investor – even individual investors – can have the option to participate in the proxy voting process if they choose.

We know there are significant regulatory and logistical hurdles to achieving this today, but we believe this could bring more democracy and more voices to capitalism. Every investor deserves the right to be heard. We will continue to pursue innovation and work with other market participants and regulators to help advance this vision toward reality.

Of course, many corporate leaders are responsible for overseeing equity assets, whether through employee pension funds, corporate treasury accounts, or other investments your company makes. **I encourage you to ask that your asset manager gives you the opportunity to participate in the proxy voting process more directly.**

BlackRock's Investment Stewardship team remains core to our fiduciary approach, and many of our clients prefer that the team continues to engage and execute voting on their behalf. But fundamentally, clients should at least be given the choice and chance to participate in voting more directly.

Our conviction at BlackRock is that companies perform better when they are deliberate about their role in society and act in the interests of their employees, customers, communities, and their shareholders.

However, we also believe that there is still much to learn about how a company's relationship with stakeholders impacts long-term value. **That's why we are launching a Center for Stakeholder Capitalism, to create a forum for research, dialogue, and debate. It will help us to further explore the relationships between companies and their stakeholders and between stakeholder engagement and shareholder value.** We will bring together leading CEOs, investors, policy experts, and academics to share their experience and deliver their insights.

Delivering on the competing interests of a company's many divergent stakeholders is not easy. As a CEO, I know this firsthand. In this polarized world, CEOs will invariably have one set of stakeholders demanding that we do one thing, while another set of stakeholders demand that we do just the opposite.

That is why it is more important than ever that your company and its management be guided by its purpose. If you stay true to your company's purpose and focus on the long term, while adapting to this new world around us, you will deliver durable returns for shareholders and help realize the power of capitalism for all.

Sincerely,

Larry Fink

Chairman and Chief Executive Officer

› **Read bio**

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[1] *Kushel R., Van Nostrand E., Weinberg C., Paul V., Tran Q., Kazdin J., Schwaiger K., Basu D., Segafredo L., Dieterich C., Seeking outperformance through sustainable insights, BlackRock, October 2021, page 8.*

[2] Crossing the horizon: North American asset management in the 2020s, McKinsey & Company, October 2021, page 34.

[3] Sustainability: The tectonic shift transforming investing, BlackRock, February 2020.

[4] Sources: Morningstar, Simfund, Broadridge. Data includes Sustainable Mutual Fund, ETF, Institutional and Alternative AUM, as defined by third party data sources, excluding integration/engagement flags. MF and ETF data as of Oct '21, Institutional & Alternatives data as of Jun '21.

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Two articles to look at. The first is BlackRock's backstroke in Texas, the second is the problem everyone is having actually selling their Russian investments.

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British statesman Winston Churchill once wrote, "Those that fail to learn from history are doomed to repeat it."

FUND*fire*

BlackRock 'Didn't Mean' Comments on Fossil Fuel: Texas Regulator

The chairman of the Texas oil regulator left a meeting with BlackRock believing the firm "no longer believes many of the disagreeable things the company and … [CEO Larry] Fink have said about the oil and gas industry."

March 11, 2022

A Texas regulator left a January meeting with BlackRock executives believing the giant asset manager had pivoted from "woke" and climate protection comments made by CEO **Larry Fink** in his annual letter to chief executives, according to emails seen by The Guardian.

Following his meeting with BlackRock staff on Jan. 7, **Wayne Christian**, chairman of the Texas oil regulator, sent a message to the company stating it was "nice to hear that BlackRock didn't mean – or no longer believes – many of the disagreeable things the company and … Mr. Fink have said about the oil and gas industry."

Christian was referring to Fink's 3,300-word missive to chief executives in which he touted BlackRock's efforts surrounding environmental, social and corporate governance, or ESG, issues as not being "about politics" and "not 'woke.'" However, his comments appeared to have backfired with some conservative groups, politicians and activists accusing BlackRock of being "woke," as reported.

Documents obtained through a freedom of information request include a letter in which Christian said BlackRock staff referred to "media misrepresentations" about the firm's environmental position and said they were "supportive" of the oil and gas industry.

In replying to Christian, a BlackRock employee did not question the Texan's take on the discussion. However, he interpreted comments made by Fink as saying "traditional" energy companies were "part of the solution" along with the firm's environmental investment policies, The Guardian reports.

There is no contradiction between its public statements and its private conversations with Christian, BlackRock told The Guardian. The firm has been "clear and consistent since January 2020 that climate risk is an investment risk that will impact returns in investors' portfolios," BlackRock said.

BlackRock's "investment conviction is that sustainability and climate-integrated portfolios can provide better risk-adjusted returns to our clients," and that energy firms "play an important role in the global economy and in a successful transition," the firm said.

BlackRock expects to remain long-term investors "in carbon-intensive sectors. We do not pursue broad divestment from sectors and industries as a policy," the asset manager told The Guardian.

Greenpeace USA Climate Campaign Manager **Anusha Narayanan** isn't buying BlackRock's claims, saying the firm is "trying to have their cake and eat it."

Investing in a carbon-free future means firms like BlackRock must immediately divest from coal, oil and gas, Narayanan told The Guardian.

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Meanwhile, 39 other financial institutions, including Wells Fargo, Citigroup, UBS and Barclays, have certified that they do not prohibit fossil fuel investing after Texas implemented a law requiring such pledges.

Still, in a comment to The Guardian, Barclays said it is “aligning our entire financing portfolio to the goals and timelines of the Paris [climate] agreement, on the way to becoming a net zero bank by 2050.”

UBS said it views engagement with companies in all industries “as fundamental to any sustainable investing approach” while supporting the goals of the Paris agreement.

Citigroup’s policies are “focused on responsibly managing the energy transition, not boycotting the energy sector,” the bank said.

Wells Fargo declined The Guardian’s request for comment.

By Kathleen Laverty

- To read the The Guardian article cited in this story, go to https://www.theguardian.com/environment/2022/mar/09/blackrock-privately-soothes-oil-industry-fears-over-its-new-green-credentials

FUNDfire

Pensions Forced to Just 'Symbolically' Divest from Russia for Now

In practical terms, it will be very difficult for pension systems to unload all of their holdings, despite the wave of announcements since Russia's invasion of Ukraine.

By Justin Mitchell | March 11, 2022

Pension systems are facing practical obstacles to divesting from Russian assets in the wake of **Vladimir Putin**'s invasion of Ukraine, and full divestment will either take a while or simply not be possible.

Factors like the ongoing closure of the Moscow stock exchange and widespread economic sanctions means many investors are likely to be left holding Russian assets for the time being.

"You can't really get rid of these holdings, although … they're in many cases marked to zero," said **Sue Crotty**, the incoming chief investment officer for consultant **Segal Marco Advisors**.

"It depends on how you really want to look at this – you're out, or you're symbolically out, or you're some combination of those."

The last couple of weeks have seen a wave of pension systems announcing plans to cease Russian investments, divest from sanctioned Russian entities, or divest from Russia completely, as reported. On Monday, 38 state treasurers signed a joint statement declaring their support for efforts "to divest State Treasury and pension funds from investments in Russian-domiciled companies."

Still, several pensions, including three of New York City's systems, the **Washington State Board of Investment** and Michigan's state investment board, said they will not be able to accomplish that goal immediately.

Some are stopping short of promising it altogether.

"Given current market conditions, and the inability to find buyers, divestment as a practical matter is not possible," a spokesperson for the **State of Wisconsin Investment Board** said in an email.

The State of Wisconsin Investment Board has only 0.06% of its $147 billion in the state's retirement system invested in Russia-linked assets, a spokesperson said, and over 80% of that exposure was with external managers for which the board has no discretion.

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In a Feb. 28 letter, California Governor **Gavin Newsom** called on the state's two biggest pension systems to "halt the flow of money from the state to Russia" but stopped short of calling for full divestment.

California Public Employees' Retirement System, the biggest U.S. pension, said it was facing "significant constraints" on its ability to liquidate about $420 million in publicly-traded Russian assets, as stated by Calpers Board President **Theresa Taylor** in a March 2 response to Newsom.

On Thursday, Bloomberg reported the pension was facing a "conundrum" on whether to unload publicly traded Russian investments because it would have to mark them down to zero, and this had sparked internal debate. But Calpers refuted that story in an email to FundFire.

“There is no internal debate,” Calpers spokesperson **Joe DeAnda** said. “We are assessing our options as expected in a situation of this kind.” He signaled staff would be prepared to provide scenarios at Monday’s meeting of the system’s investment committee.

California State Teachers’ Retirement System Board President **Harry Keiley** said in a letter to Newsom dated March 9, that Chief Investment Officer **Chris Ailman** would “coordinate with all our external managers” but did not mention selling assets, though it would follow all required sanctions. The letter estimated the current total value of Calstrs’ Russian public market holdings at less than $100 million, which are held through depository receipts instead of direct holdings in the country.

Overall, this is “early days” in the process of getting rid of Russia-linked assets, said **Ho Hwang**, the non-U.S. equity lead for consultant **Callan**’s global manager research group.

“I hate to say this, but a divestment decision is much easier than implementation,” he said. “Due to sanctions, due to illiquidity, it’s going to be a lot more difficult [to fully divest].”

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March 11, 2022

A Texas regulator left a January meeting with BlackRock executives believing the giant asset manager had pivoted from “woke” and climate protection comments made by CEO **Larry Fink** in his annual letter to chief executives, according to emails seen by The Guardian.

Following his meeting with BlackRock staff on Jan. 7, **Wayne Christian**, chairman of the Texas oil regulator, sent a message to the company stating it was “nice to hear that BlackRock didn’t mean – or no longer believes – many of the disagreeable things the company and … Mr. Fink have said about the oil and gas industry.”

Christian was referring to Fink’s 3,300-word missive to chief executives in which he touted BlackRock’s efforts surrounding environmental, social and corporate governance, or ESG, issues as not being “about politics” and “not ‘woke.’” However, his comments appeared to have backfired with some conservative groups, politicians and activists accusing BlackRock of being “woke,” as reported.

Documents obtained through a freedom of information request include a letter in which Christian said BlackRock staff referred to “media misrepresentations” about the firm’s environmental position and said they were “supportive” of the oil and gas industry.

In replying to Christian, a BlackRock employee did not question the Texan’s take on the discussion. However, he interpreted comments made by Fink as saying “traditional” energy companies were “part of the solution” along with the firm’s environmental investment policies, The Guardian reports.

There is no contradiction between its public statements and its private conversations with Christian, BlackRock told The Guardian. The firm has been “clear and consistent since January 2020 that climate risk is an investment risk that will impact returns in investors’ portfolios,” BlackRock said.

BlackRock’s “investment conviction is that sustainability and climate-integrated portfolios can provide better risk-adjusted returns to our clients,” and that energy firms “play an important role in the global economy and in a successful transition,” the firm said.

BlackRock expects to remain long-term investors “in carbon-intensive sectors. We do not pursue broad divestment from sectors and industries as a policy,” the asset manager told The Guardian.

Greenpeace USA Climate Campaign Manager **Anusha Narayanan** isn’t buying BlackRock’s claims, saying the firm is “trying to have their cake and eat it.”

Investing in a carbon-free future means firms like BlackRock must immediately divest from coal, oil and gas, Narayanan told The Guardian.

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Meanwhile, 39 other financial institutions, including Wells Fargo, Citigroup, UBS and Barclays, have certified that they do not prohibit fossil fuel investing after Texas implemented a law requiring such pledges.

Still, in a comment to The Guardian, Barclays said it is "aligning our entire financing portfolio to the goals and timelines of the Paris [climate] agreement, on the way to becoming a net zero bank by 2050."

UBS said it views engagement with companies in all industries "as fundamental to any sustainable investing approach" while supporting the goals of the Paris agreement.

Citigroup's policies are "focused on responsibly managing the energy transition, not boycotting the energy sector," the bank said.

Wells Fargo declined The Guardian's request for comment.

By Kathleen Laverty

- To read the The Guardian article cited in this story, go to https://www.theguardian.com/environment/2022/mar/09/blackrock-privately-soothes-oil-industry-fears-over-its-new-green-credentials

FUNDfire

Pensions Forced to Just 'Symbolically' Divest from Russia for Now

In practical terms, it will be very difficult for pension systems to unload all of their holdings, despite the wave of announcements since Russia's invasion of Ukraine.

By Justin Mitchell | March 11, 2022

Pension systems are facing practical obstacles to divesting from Russian assets in the wake of **Vladimir Putin**'s invasion of Ukraine, and full divestment will either take a while or simply not be possible.

Factors like the ongoing closure of the Moscow stock exchange and widespread economic sanctions means many investors are likely to be left holding Russian assets for the time being.

"You can't really get rid of these holdings, although … they're in many cases marked to zero," said **Sue Crotty**, the incoming chief investment officer for consultant **Segal Marco Advisors**.

"It depends on how you really want to look at this – you're out, or you're symbolically out, or you're some combination of those."

The last couple of weeks have seen a wave of pension systems announcing plans to cease Russian investments, divest from sanctioned Russian entities, or divest from Russia completely, as reported. On Monday, 38 state treasurers signed a joint statement declaring their support for efforts "to divest State Treasury and pension funds from investments in Russian-domiciled companies."

Still, several pensions, including three of New York City's systems, the **Washington State Board of Investment** and Michigan's state investment board, said they will not be able to accomplish that goal immediately.

Some are stopping short of promising it altogether.

"Given current market conditions, and the inability to find buyers, divestment as a practical matter is not possible," a spokesperson for the **State of Wisconsin Investment Board** said in an email.

The State of Wisconsin Investment Board has only 0.06% of its $147 billion in the state's retirement system invested in Russia-linked assets, a spokesperson said, and over 80% of that exposure was with external managers for which the board has no discretion.

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In a Feb. 28 letter, California Governor **Gavin Newsom** called on the state's two biggest pension systems to "halt the flow of money from the state to Russia" but stopped short of calling for full divestment.

California Public Employees' Retirement System, the biggest U.S. pension, said it was facing "significant constraints" on its ability to liquidate about $420 million in publicly-traded Russian assets, as stated by Calpers Board President **Theresa Taylor** in a March 2 response to Newsom.

On Thursday, Bloomberg reported the pension was facing a "conundrum" on whether to unload publicly traded Russian investments because it would have to mark them down to zero, and this had sparked internal debate. But Calpers refuted that story in an email to FundFire.

“There is no internal debate,” Calpers spokesperson **Joe DeAnda** said. “We are assessing our options as expected in a situation of this kind.” He signaled staff would be prepared to provide scenarios at Monday’s meeting of the system’s investment committee.

California State Teachers’ Retirement System Board President **Harry Keiley** said in a letter to Newsom dated March 9, that Chief Investment Officer **Chris Ailman** would “coordinate with all our external managers” but did not mention selling assets, though it would follow all required sanctions. The letter estimated the current total value of Calstrs’ Russian public market holdings at less than $100 million, which are held through depository receipts instead of direct holdings in the country.

Overall, this is “early days” in the process of getting rid of Russia-linked assets, said **Ho Hwang**, the non-U.S. equity lead for consultant **Callan**’s global manager research group.

“I hate to say this, but a divestment decision is much easier than implementation,” he said. “Due to sanctions, due to illiquidity, it’s going to be a lot more difficult [to fully divest].”