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September 24, 2024

Representative Tyler Clancy
350 N State Street, Ste. 350
Salt Lake City, UT, 84114

Dear Representative Clancy,

Thank you for your thoughtful letter expressing concerns about Utah's state retirement funds and potential exposure to hostile foreign influences, particularly regarding investments linked to the People's Liberation Army (PLA) and the Chinese Communist Party (CCP). I appreciate your dedication to safeguarding both our state's assets and national security interests.

As state treasurer and a member of the Utah State Retirement Board (the Board), I share your concerns regarding investments that may pose geopolitical and financial risks. By statute, members of the Board are the fiduciary trustees of the Utah State Retirement Investment Fund (the Fund), responsible for managing the retirement assets of thousands of current and future public employee retirees. The Board is composed of seven members, including myself, and four experienced investment professionals appointed by the governor, alongside public employee and school employee representatives.

In accordance with Utah Code § 49-11-301, the Fund is established as a trust for the investment of public employees' retirement defined benefit assets. The Board is obligated to act solely in the interest of the beneficiaries, adhering to the fiduciary standard of care specified by law. We are mandated to invest the Fund in accordance with the prudent investor rule (Utah Code § 49-11-303) and to make investment decisions with the sole purpose of maximizing the risk-adjusted return on the investments (Utah Code § 49-11-203(1)(q)). Federal and state laws require that the plan be for the exclusive benefit of employee members and their beneficiaries, prohibiting any diversion of Fund assets for other purposes (Internal Revenue Code § 401(a) and Utah Code § 49-11-301).

Our investment strategy is intentionally "risk aware." The Board and Utah Retirement Systems (URS) staff have developed and carefully implemented defensive asset allocation, prudent portfolio construction, and meticulous manager selection to achieve our target actuarial rate of return of 6.85% while minimizing portfolio risk. Compounding investment returns over time is critical for both "inflation-proofing" the Fund's corpus and creating a larger asset base to better fulfill the URS mission. We consistently consider all qualitative and quantitative factors that may affect investment risk. Our team continuously monitors investment performance and market conditions across all asset classes.

The Board meets regularly—usually monthly—with URS management and investment staff to discuss and review investment performance and market conditions, ensuring that Fund assets are prudently managed.

Regarding investments in China, the Board has been concerned for some time about risks related to geopolitical and financial issues, including those you've highlighted. We recognize that the conflict over how to regulate U.S. capital flowing to China is one of the unresolved policy disputes in Congress. Potential federal regulations could create additional portfolio risk for investments in China.

In response to these concerns, the Board, URS management, and investment staff have discussed Chinese investment risks in our meetings. We have taken affirmative steps to reduce the Fund's exposure to China and, to the degree practicable, opt out of such future investments. Currently, the Fund's direct, private investments in China are minimal to the point of being negligible, and URS's Chinese public market holdings, including fixed income and equity markets, are below global, capitalization-weighted indices.

I am sympathetic to the themes and points raised in your letter. The Board's commitment is to make prudent financial decisions that provide meaningful and secure retirement benefits for our beneficiaries while also considering the significant economic impact on the State of Utah.

At this time, I don't believe additional legislative action is necessary, but I appreciate your concern and support regarding this important issue. The Board will continue to monitor the situation closely.

Thank you again for your dedication to our great state. Please feel free to reach out if you have any further questions or if I or URS staff can provide additional information.

Sincerely,



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UTAH HOUSE OF REPRESENTATIVES

Representative Tyler Clancy | House District 60

Treasurer Marlo Oaks,

I am writing to inquire about Utah's state pension funds and possible exposure to hostile foreign influence. Across the country, states have been stepping up and divesting from companies controlled by the People's Liberation Army (PLA) or the Chinese Communist Party (CCP), especially those working on dual-use technologies or other advanced technologies that could pose a national security risk, such as Hesai Group or Weibo Corporation.

China's Military-Civil Fusion programs – the CCP's strategy of merging commercially available technologies with PLA modernization – make a broad review of any investments in China necessary. Chinese law makes it so investment in China is directed in line with state priorities. As a result, investors may not know the extent to which their investment in China advances PLA modernization, facilitates human rights abuses, or subsidizes unfair trade practices by Chinese firms. These actions have a significant impact on our national security and, potentially, State of Utah assets.

China's intellectual property rights violations and espionage operations threaten our ability to responsibly invest in companies that have a majority ownership by the CCP. Like you, I have been troubled by China's increased aggression toward Taiwan and worry about the implications of the American taxpayer financing the development of technologies that can be used by the PRC military. Investment in PLA-linked companies may carry tremendous financial risk, particularly in the event of additional sanctions by the U.S. government.

I am grateful for the work you do on behalf of our great state. You have been a powerful voice in the United States for making sure our financial system maintains its integrity and independence.

Sincerely,
Rep. Tyler Clancy

A handwritten signature in cursive script that reads "Tyler Clancy".