BALLARD: [MALFUNCTION] Retirement Systems Committee. My name is Senator Beau Ballard, and I represent 21st district in northwest Lincoln, northern Lancaster County, and I serve as chair of this committee. We'll start off by having the members introduce themselves, starting on my far left with Senator Sorrentino.

SORRENTINO: Tony Sorrentino, Legislative District 39: Elkhorn and Waterloo.

TREVOR FITZGERALD: Trevor Fitzgerald, committee legal counsel.

BALLARD: And also serving the committee is Connie Thomas and committee page, Lexi. [INAUDIBLE] yeah, Lexi is here. A major-- at University of Nebraska-Lincoln, majoring in agriculture communications. We're still waiting on a few more committee members that have exec sessions currently, but we'll get-- go ahead and get started. This afternoon, we'll be hearing two bills, LB885 and LB1095, and we're going to switch up the order for Senator Andersen. We're going start with LB885 first, and then move on to LB1095, if that's OK with everybody. On the table near the entrance, you will find the green testifier sheets. If you're planning to testify today, please fill out and hand it to the page when you come up. This will help keep an accurate record of the hearing. Please note that if you wish to have your position listed on the committee statement for a particular bill, you must testify in that position during the bill's hearing. If you do not wish to testify but would like to record your position on the bill, please fill out the yellow sheet near the entrance. Also note the Legislature's policy that all letters for the record must be received via an online comment portal by the committee by 8 a.m. the day of the hearing. Any handouts submitted by testifiers will be included as part of the record as exhibits. We ask that if you have any handouts that you please bring 12 copies and give them to the page. If you need additional copies, the page can help you make more. Testimony for each bill will begin the introducer's opening statement. After the opening statement, we will hear from supporters of the bill and then those in opposition, followed by those speaking in a neutral capacity. The introducer of the bill will be then given opportunity to make closing statements, if they wish to do so. We ask that you begin your testimony by giving us your first and last name, and please spell it for the record. Because this committee meets over the lunch hour, and I believe they're using this as an overflow hearing room, we're going to do the three-minute light system today. When you begin your testimony, the light will turn green. The yellow light is your one-minute warning. When the red light comes on, we ask you to [INAUDIBLE] up for your final thoughts. We ask everyone, including senators, to please turn off or silence your cell phones or put them on vibrate. We'll begin our hearing with LB885 and Senator Andersen. Welcome up.

ANDERSEN: Good afternoon, Chairman Ballard, and member of the retirement community. I am Senator Bob Andersen, B-o-b A-n-d-e-r-s-e-n, and I represent District 49, which includes northwest Sarpy County and Omaha. I'm introducing LB885, which is purely administrative, and speaks to transparency and accountability. LB885 removes the quote for-cause requirement and adds the governor as an authoritative person, in addition to the investment council, who can remove the state's Chief Investment Officer. As a bit of background, the Chief Investment Officer for the state is appointed by the Nebraska Investment Council, subject to the approval of the governor and the Legislature. The investment council itself is appointed by the governor, again with the approval of the Legislature. Members of the board, pursuant to the constitution, are able to be removed by the governor for cause. The Chief Investment Officer, however, is discretionary. Discretionary employees may be removed at any time for any reason. LB885 will harmonize this position with the policy and with the appointment and removal of the director by the Nebraska Public Employee Retirement System. Additionally, granting the governor power to remove the CIO allows the, the state's chief executive, particularly if it's in a new administration, to more effectively set policy direction. LB885 is purely an administrative measure, increasing transparency and accountability. Thank you for your time, and I'm happy to answer any questions you may have.

BALLARD: Thank you, Senator Andersen. Are there any questions? Seeing none. We will have our first proponent for LB885. Seeing none. Any of those in opposition to LB885? Seeing none. Anyone in the neutral capacity to LB885? Good afternoon.

GAIL WERNER-ROBERTSON: Good afternoon. OK, you ready?

BALLARD: Ready.

GAIL WERNER-ROBERTSON: All right. Gail Werner-Robertson, G-a-i-l W-e-r-n-e-r R-o-b-e-r-t-s-o-n. I have been a voting member of the Nebraska Investment Council for 23 years, and I have chaired-- had the privilege to chair NIC for 20 years. I've served under four governors. I've had the honor to work with five talented state investment officers in my 23 years. I'm here just to give you some history and perspective from my time on the council. As you know, NIC manages investments for, for the state of Nebraska. As of 12-31-2025, it amounted to approximately $45.5 billion. Approximately $35 billion of that is retirement assets. All those plans had approximately a 15.5 percent return last year, very solid. Over the longer term, we've achieved top-quartile performance, and over the last 10 years, top decile performance when compared to like-size fund. So, how does this happen? What's the secret sauce? Well, part of it is your work at the Unicameral for not taking contribution holidays in the, in the lean years, and that's helped us reach full funding for most of the plans. But in my opinion, the biggest factor is the talented staff that works at NIC, and this staff is led by the State Investment Officer. I've participated in hiring four of the last SIOs, and they've been highly-qualified individuals. This includes our current SIO Ellen Hung. We did national searches for the last four, and used a consultant for the last three. I'll share what I think makes the difference here in Nebraska, and why we have been able to attract and keep our SIO's for long periods of time. Our last SIO, Michael Walden-Newman, which some of you may know, was here for 10 years, retired here at 10 years, which is almost unheard-of tenure in this business. We work very hard to be responsive to the senators and to the governor. We know who we report to, but we also know our fiduciary duty to the retirement plan participants and to the taxpayers of Nebraska. We do an annual review not only of our SIO, but also our council. We take that governance very seriously. We want best-in-class governance, and our consultants have told us that we are one of the top two or three retirement systems they work with, and they hold us up as an example of what best-in-class looks like. I'm fearful if this change is made to make the SIO subject to immediate termination by the governor for any reason, we'll have a difficult time recruiting talent to our small state. SIOs will be worried that each new administration, they could be terminated, and I believe it's that longevity of talent that really makes the difference. That's how Nebraska has achieved excellence. Any questions?

BALLARD: Thank you for your testimony. Are there any questions?

GAIL WERNER-ROBERTSON: Thank you.

BALLARD: I do have-- I do have one. So, can you tell me about recruiting SIOs? Is there a-- kind of talk to me about the application process.

GAIL WERNER-ROBERTSON: Sure. So, when we do-- we hire a search firm to do a national search. So, we have a job description that we put together, and it's very specific as far as working with the Unicameral, working with the governor, and then all the investments that we handle. We then post that-- he does, nationally, and then he starts calling people. Usually, the people we hire do not answer that ad. He calls and finds people that are currently employed at other, other states. And that's what I worry, is other states will come and try to recruit our people. That's how we have gotten really top talent. They all have-- the last three have come from outside of Nebraska.

BALLARD: OK. Thank you. Any additional questions? Ope, Senator Sorrentino.

SORRENTINO: Thank you. Welcome.

GAIL WERNER-ROBERTSON: Thank you.

SORRENTINO: I don't know enough about the makeup of the investment council. Could you give me a little history on that?

GAIL WERNER-ROBERTSON: Sure, absolutely. So, Nebraska is somewhat unique. In the '60s, the Unicameral changed and created what is now the Nebraska Investment Council. We have five voting members that are appointed, that the governor appoints and then you all approve. We also have the treasurer, who is a non-voting member, and the Nebraska Public Employee Retirement System head is a non-voting member. It's, it's unique in only having five voting members that are really not, not political. They're-- we don't hold any other roles in state government, we're all volunteers. But we have really deep expertise. All of our members have very deep expertise. I think it has helped us not have political pull-- I've never felt political pressure. I answer to the governor. He's called me before when he didn't like something that was going on, and we have a conversation, but we've always been able to resolve it. So I, I like that part. The members that work in the office really are led by the State Investment Officer, and that leadership is really important. We have someone at NIC who's been there longer than I've been on the council. She was there before I started. So, there's just been a long tenure, and I think that adds to continuity. We manage not just retirement assets; we manage a lot of different pools, endowments. The operating investment pool, which is a little over $7 billion, we manage that internally. So, it's really critical we have people that stay, and you have a State Investment Officer that understands all those pools, so. It's, it's complicated. It took me a couple years to figure it all out.

SORRENTINO: Of the current five members were-- how many, do you know, were appointed by current Governor Pillen? Do you know? Or any [INAUDIBLE]

GAIL WERNER-ROBERTSON: We have-- well, there would be two now. He's-- he appointed one new one. So, he appointed the last new one, which was last year, Brian Christensen. So, that's his-- the rest of us. I was appointed by Johanns, to give you an idea how long ago it has been, so I have served under multiple governors. And we have a number of people-- we have another council member who will have his 20th year. He's retiring at the end of this session this year. So, that has been-- let me tell you, that is huge, when there's lawsuits or other things, to have that knowledge is just really helpful.

SORRENTINO: My only other-- it's more of a comment. If you can make a question out of it, great. I'm a big fan of employment at will. We're an employment-at-will state.

GAIL WERNER-ROBERTSON: Mm-hmm.

SORRENTINO: And certainly nothing in this changes that it would be the council who could terminate the employment versus the governor and the council. Do you have any concerns about employment at will with this change?

GAIL WERNER-ROBERTSON: I, I don't, because there's lots of ways that you make sure each party is happy, and you don't just have termination as an option if, if you don't think they're doing their job. There's no raises, there's lots other ways that you can handle and manage the situation. I think for someone coming into a political position-- and I understand they're moving from another state often. Our last two moved before they even got through the approval with the governor. I mean, that's a real, you know, leap of faith, that they're, they're going to be OK, the governor's going to approve. But once they get here, they've, they've made commitments to me sometimes. 10 years. Michael was here 10 years, and he told me that. After a year, he goes, I love it here. And he retired to Lincoln. So, he really does love Nebraska. But no, I don't, I don't have a concern about that. I don't, I don't see it as a "you can't do anything" if there was a problem. I mean, cause, there are, there are, there are some, some things that would go beyond.

SORRENTINO: Thank you, Ms. Werner-Robinson.

GAIL WERNER-ROBERTSON: Absolutely.

BALLARD: Thank you, Senator Sorrentino. Additional-- Senator Conrad.

CONRAD: Thank you. Hi. Good to see you again.

GAIL WERNER-ROBERTSON: Good to see you as well.

CONRAD: Thank you for your long service. I remember working through your nominations and renominations--

GAIL WERNER-ROBERTSON: Yes, yes.

CONRAD: --during my, my past legislative service, and I think that your experience in this role really is so beneficial and valuable not only to ensuring sound approach to our investments and our retirement system, but it really kind of helps to put it-- paint a, a clear picture about how important it is to ensure that we have longevity and we have a non-political approach to these issues. And we've seen that through the appointments, through your leadership, and that's what really troubles me about this bill. Nebraska has resisted impulses to weaponize--

GAIL WERNER-ROBERTSON: Yeah, yeah.

CONRAD: --these systems for political purposes over many, many years. And we're fortunate to be right at the top of that list, if not number one, number two, in terms of solvency, in terms of, you know, how our pensions are funded and how, how they're executed, and that's something I think we should be really, really proud of, and something that we just, we have to guard against the "politization" of, of these systems, and that's what troubles me about this bill. But I was hoping that perhaps you could provide just a little, a little tiny bit more information. When you go through the national search process, it's not like anybody with a finance degree or whoever worked at a bank--

GAIL WERNER-ROBERTSON: Oh, no. Oh, no.

CONRAD: --is qualified for this position. It's a really small set of incredibly educated, experienced people who, who--

GAIL WERNER-ROBERTSON: Absolutely.

CONRAD: --who can even fill this kind of complex role.

GAIL WERNER-ROBERTSON: And it is not an easy search because of that. You're, you're generally looking at somebody who either was in a state treasurer's office or was an assistant CIO at a retirement system. We had one person we hired out of private industry; that just was really hard, it didn't, didn't fit as well. So, you really have to look for somebody who has this expertise.

CONRAD: Yeah.

GAIL WERNER-ROBERTSON: It's just complicated. And Ellen's a CFA-certified financial analyst. I mean, that's what we look for, is somebody with that-- that's, that's another rare special added certification that she has, along with all of her history of managing money in different spots.

CONRAD: Yes.

GAIL WERNER-ROBERTSON: And it is a difficult job. You got to know all of it. You got to know private equity, you got to know private real state, you've got to know bonds and stocks and ETFs, and-- I mean, it is just-- it's a big job. And I'm so proud of the results that our team has done. I mean, we're-- they're a small team. They're a very small team, and they work-- also, all the people we've hired have really worked on cost. So, in low-return environments, your costs really eat up into your return. And Ellen just recently renegotiated one of our fees and lowered them dramatically. That helps returns for the plans. So, it's, it's a lot of very specific knowledge that-- rare. It's, it's hard to even come up with. We try to get five candidates that are in our final.

CONRAD: OK. And just-- and I'm sorry if you covered this earlier. Got held up getting to committee. But in your-- I don't want to make this necessarily a performance review by public hearing, but has your experience working with Ms. Hung been responsive and professional and top-notch?

GAIL WERNER-ROBERTSON: Yes. And we started last year a 360 review of our state investment officers, so we get feedback from not just us, the council members, but also her, her individual reportees and people in you state-- state government, and, and all of our vendors, so we have more information than what we've ever had before. And then, I spend a lot of time-- that's why I love this-- I spend a lot of time helping to mentor the state investment officers and help them in any of the issues they might be having so that they could be really top-notch and successful in their job, and they're really successful for us. So, I-- I've not had any issues at all. And in the past, literally, if a governor had an issue, they would call me--

CONRAD: Sure.

GAIL WERNER-ROBERTSON: --and we worked it out. And that was-- it was never a problem. And certainly, I, I, I listen, I report.

CONRAD: Right, right.

GAIL WERNER-ROBERTSON: I report to the governor, so I, I want to make sure that we're being responsive. But they don't want anything above the fold in the paper. We don't want to repeat OSERS, the Omaha school retirement system.

CONRAD: Right.

GAIL WERNER-ROBERTSON: We have them now.

CONRAD: Yes.

GAIL WERNER-ROBERTSON: We're still working through that nine years later, so you don't want that. You really want to make sure you have good quality people that are managing things, and a good system.

CONRAD: Yes.

GAIL WERNER-ROBERTSON: I think you all have a, have a really great system.

CONRAD: It is a good system. Well, thank you for sharing that additional insight. And having served on this committee for a long time over the years, I can tell you, I've had a similar experience. Perhaps for some political issue here or there, I've been frustrated by something that's happened within, within the investment council or within the retirement council. But it's, it's a good reminder that that frustration was political, and I've always found our staff and the appointed leadership to be so serious in their purpose, in their task. They have really guarded against the "politization" of their work, and have always put the taxpayers and returns and retirees first. And I, I think that's so important that we lift that up as the Nebraska way, and we don't let politics get in the middle of that, that north-star goal.

GAIL WERNER-ROBERTSON: Yeah, I think that's critical. That's why we've been successful, I think. That's--

CONRAD: Thank you.

GAIL WERNER-ROBERTSON: And there's plenty of others that can be held up as not a good example.

CONRAD: Yes. Thank you. Thank you.

BALLARD: Thank you, Senator Conrad. Any final questions? Seeing none.

GAIL WERNER-ROBERTSON: All right.

BALLARD: Thank you for being here.

GAIL WERNER-ROBERTSON: Thank you very much.

BALLARD: Additional neutral testimony? Seeing none. As Senator Andersen comes back to close, we did have no ADA testimony, no proponent written, no opposition testimony, and-- or, 2 opposition testimony and 1 in the neutral.

ANDERSEN: Thank you, Chairman Ballard, and members of the Retirement Committee. I want to thank those here for testifying and spending your time coming down here, testifying on the bill. This bill is administrative in nature, harmonizing policy across positions and increasing transparency and accountability. So, I thank you all for your time. I look forward to working with you and bringing LB885 to the floor for, for a vote.

BALLARD: Thank you, Senator Andersen. Any questions? Seeing none. Thank you for your testimony. That will close our hearing on LB885, and open up our hearing on LB1095. Senator Andersen.

CONRAD: I thought maybe we missed that one.

BALLARD: Good afternoon, Senator Andersen.

ANDERSEN: Good afternoon, Chairman Ballard, members of the Nebraska Retirement Systems Committee. I'm Senator Bob Andersen, B-o-b A-n-d-e-r-s-e-n. I represent District 49, which is northwest Sarpy County in Omaha. I'm here today to introduce LB1095, which directs the Nebraska Investment Council to divest state pension and retirement funds from Chinese entities identified by federal and state governments. Almost $800 million of retirement funds from hardworking Nebraskans are at elevated risk by being invested in China. Additionally, Nebraska retirement funds are invested in the country that is a direct threat as a near-peer country to Nebraska and the United States of America. Last year, I introduced LB661 with the same objective. Over the interim, I have attempted to engage in a dialogue with the State Investment Officer, including attending the Nebraska Investment Council board meeting in October to try and understand why divestment from China has not been possible. I have not received satisfactory answers to multiple questions. As in LB661, LB1095 ensures that Nebraska does not repeat the mistakes made by other states that suffered financial losses from investments in adversarial nations. The bill directs the Nebraska Investment Council to divest our state's pension and retirement funds in a gradual and fiscally-sound manner from these Chinese entities, specifically those that have been explicitly designated by the U.S. government as threats to national security or involved in unethical practices, such as forced labor or military-industrial activities. This is not a broad economic sanction; it is a targeted and pragmatic financial policy aligned with federal designation and action taken by other states. By enacting LB1095, we protect Nebraska retirees from the potential economic fallout from further decline of the Chinese economy, as the Wall Street Journal reported in handout number 1. China's economy is deteriorating on several fronts. It notes China's retail growth continues to slow to the lowest level since 2022. It reports investment and property market continues to, to deteriorate. The Epoch Times recent article in the handout number 2 titled "Japanese companies quietly pulling back from China over increased instability" documents the recent and continual negative trends in the Chinese economy. The article states, quote, relocation of Japanese and increasingly American production lines to southeast Asia signals foundational shift in how companies assess China. The article continues, "political risk and supply-chain security have become core variables in corporate decision-making." This is not longer-- this is no longer a short-term business fluctuation, but a long-term risk-avoidance strategy tied to the CCP system. The economic decline of China increases the risk for Nebraska retirement funds to an unacceptable level. China, through its Road-and-Belt Initiative, and art-- as articulated in the Chinese Communist Party's, the CCP, five-year plan, is to continue its global expansion, challenging militarily, economically, and technically the United States and its allies. Nebraska tax dollars should not directly or indirectly support the CCP's hostile activities targeting Nebraska, the United States, and her allies. Divesting funds from China will ensure the CCP is not using Nebraska retirement funds to cause us harm. The Nebraska Investment Council has interpreted the bill to require immediate divestment, including the sale of funds at a discount or before bonds reach maturity. However, the bill states for, for divestments, quote-unquote, as soon as practicable. The intent is to stop new investments in prohibited activity-- entities, and to remove investments in these entities when financially prudent. Regarding the fiscal note from Ms. Hung, I fail to understand how she can estimate the revenue loss from the $500 million divestment as cost-- as costing over $460 million. The one-time fee of $3.6 million seems reasonable, but her reported revenue loss equivalent to 57 percent of the capital seems illogical and unfounded. A number of states have already taken similar steps mandated in LB1095, including Florida, Indiana, Kansas, Missouri, Oklahoma, Pennsylvania, Texas, and others. LB1095 is a commitment to Nebraska's financial and national security. It ensures that our state pension and retirement plans are managed with sound judgment, free from unnecessary risk, and aligned with national security interests. This is about protecting Nebraska teachers, state troopers, and other public servants from potential financial consequences of a changing global landscape. Other states have already recognized this reality and taken proactive measures. We can't afford to wait for a crisis to emerge before acting. The time to make responsible, forward-thinking investment decisions is now. There are testifiers behind me who can answer in more details some-- any of your questions. I thank you for your time and consideration, and I welcome any questions you may have.

BALLARD: Thank you, Senator Andersen. Are there any questions? Senator Sorrentino.

SORRENTINO: Thank you, Chairman. Senator Andersen, the brief history that I have on this topic is that there have been times when countries were taken off our investment list. South Africa, Northern Ireland. I know that Sudan and Iran were proposed to be off, but they never did. I don't know that there's any concern now that China could be, potentially, a military opponent. That's just reading headlines in the news. That's somewhat apparent. We don't know if that will happen. But we have other countries-- you know, Russia, Iran, Iraq, Syria, et cetera, who are militarily probably opposed to where we're at these days. Is there a particular reason that China is the focus or the only focus, or perhaps we don't really do any investment with those other countries. So, that's my country-- question. The scope of the elimination of one country versus others. Could you comment on that, please?

ANDERSEN: That's a great, great question, Senator Sorrentino. There may be other, other questions that we're invested in, but primarily the one that most of the money that we have that's in an adversarial country, so those that want to do harm to United States and failing economies, China is the primary one. They are the, the first and largest one. So, the first of greatest concern.

SORRENTINO: OK.

ANDERSEN: Great question. There may be others. We probably should look into that.

SORRENTINO: OK. Thank you.

BALLARD: Thank you, Senator Sorrentino. Additional questions? Senator Conrad.

CONRAD: Thank you, Chair. Thank you, Senator Andersen. Just to be clear, the reasons or part of the reasons that you want the committee to consider this bill favorably, you cited information from the Epoch Times, is that right?

ANDERSEN: The Epoch Times?

CONRAD: Yeah.

ANDERSEN: Yes, ma'am. That's one of the handouts.

CONRAD: Do you know-- do you know anything about that publication and how it works and how it's funded, and what they stand for?

ANDERSEN: No, but I've been impressed by their, their analytic approach, even going back to the COVID days and some of the things they were able to provide.

CONRAD: OK. Just for the record and for folks that don't know, the Epoch Times is described as a far-right, international, multi-language newspaper and media company based in New York City, and they also have promoted conspiracy theories like QAnon. They have promoted things, very controversial, very racist things, like the great replacement theory. They have promoted and proliferated anti-vaccine misinformation. They perpetuated false claims about voter fraud in the 2020 presidential election. Just wanted to make sure that we are clear about the sources that we're utilizing. Thank you.

ANDERSEN: That's, that's, that's one of-- do you mind if I respond?

CONRAD: Sure.

ANDERSEN: That's one of three handouts that, that I gave to you. The other one, Wall Street Journal, Forbes. I don't know if you have any concerns with them.

CONRAD: I, I think they're pretty well understood what their editorial and journalistic standards are, and each member can, can definitely evaluate that for themselves. They're a little bit more well-known option.

ANDERSEN: Sure.

CONRAD: But did just want to lift up that there was a few concerns about the other source that you wanted the committee to, to look at.

ANDERSEN: Sure. If you like the Wall Street Journal, then they substantiate what the Epoch Times said. So, they validated what the Epoch Times reported.

CONRAD: Do you subscribe to those theories, Senator? Do you believe in the great replacement theory?

ANDERSEN: Do I believe in what?

CONRAD: The great replacement theory.

ANDERSEN: I'm not familiar with the great-- apparently not, because I'm not--

CONRAD: OK. Are you anti-vaccine?

ANDERSEN: Am I-- I'm not sure how that's relevant to--

CONRAD: Do you support QAnon theories?

ANDERSEN: I'm not sure how that's relevant to this conversation about divestment in China.

CONRAD: OK. I'm just wondering how and if you stand by the sources that you cite, if you subscribe to that same sort of thinking, so. I appreciate the--

ANDERSEN: I can go find other sources if you want. It took me about five minutes to Google these online, so I can go get a litany--

CONRAD: Sure.

ANDERSEN: --you know, a library for you if you like, if you don't like Epoch Times. I'm not, I'm not an author for them.

CONRAD: Look, it has nothing to do with whether I like it or not. I mean, it's just a, a fact about the, the point of view and perspective they bring forward. And I appreciate the additional dialogue that you Googled in about five minutes what you want this committee to look at to make major changes to our investment policy, so thank you.

ANDERSEN: Yeah, the point is it only takes five minutes to get the, the background saying that the Chinese has a failing economy. That's my point.

CONRAD: OK. Very good. Thanks, Senator.

BALLARD: Thank you, Senator Conrad. Additional questions? Seeing none. Thank you.

ANDERSEN: Thank you.

BALLARD: First proponent for LB1095. Good afternoon.

STEPHEN SOUKUP: Good afternoon, Chairman. Good afternoon, Senators. My name is Stephen Soukup, S-t-e-p-h-e-n S-o-u-k-u-p. I'm here in my capacity as a scholar in residence at the State Financial Officers Foundation's Public Fiduciary Network and as a visiting fellow at the Heritage Foundation's Free Enterprise Initiative. From a fiduciary perspective, there are several compelling, compelling reasons to oppose investments in restricted Chinese entities, and therefore, to support LB1095. The bill protects retirees from geopolitical risk while merely bringing the state in line with existing federal judgment. It creates no new Nebraska-only blacklists. It addresses serious concerns about forced labor, and the prospect of state pension funds inadvertently financing ongoing human rights violations. It is both transparent and flexible, enabling orderly divestment and requiring semi-annual reporting from the State Investment Officer. It aligns Nebraska's pension investments with national trends in both public and private investment. And given the state's likely low "explosure"-- exposure to restricted entities, all of this likely can be accomplished with minimal compliance costs. Taken together, these are common-sense measures that strengthen the alignment of Nebraska's pension investments with sound fiduciary principles. There is, however, a second and equally important reason to support this bill, one that is rarely discussed and poorly understood. Not only does the Nebraska state government have an interest in not owning restricted entities in Chinese-- restricted Chinese entities, the Chinese government has an interest in not having anyone own any of those restricted entities. In fact, such ownership by foreigners is prohibited under Chinese law. Despite this, Chinese companies have spent more than a quarter century seeking access to Western capital markets, particularly American capital markets, which provide them enormous infusions of capital. To reconcile that ambition with Chinese legal restrictions, and not coincidentally, to keep foreign investors at arm's length from actual ownership, Chinese corporations have developed an elaborate workaround involving shell companies, wholly-owned foreign enterprises, and the incorporation in tax havens like the Cayman Islands. The structure works as follows. Companies listed on American exchanges, Alibaba, JD.com, et cetera, are not the actual operating companies in China's-- in China. American investors are only permitted to purchase shares from Cayman Islands-headquartered shell companies that purport to represent those operating companies. These shells are known as variable interest entities, VIEs. Each VIE holds contracts with intermediate entities called wholly-owned foreign enterprises, or WOFEs, which in turn hold contracts with the actual operating companies. Those contracts are supposed to provide economic exposure equivalent to the proportional ownership stake. The practical result is striking. Investors in the majority of American exchange-listed Chinese companies and virtually all of the Chinese companies that are technology companies own no equity whatsoever in the underlying operating businesses. They are owners only in a nebulous, twice-removed sense of the word. Worse still, even that "intenuated" ownership is technically illegal under Chinese law, exists only at the suffrage of the Chinese Communist Party, and can in theory be revoked at any time without notice, without recourse, and without compensation.

BALLARD: Thank you for your testimony. Are there any questions? I do have one. So you, so you talked about the Chinese law restrictions. So, so the idea is that under current Chinese law, they don't want Western, Western investment? Is that kind of the thought?

STEPHEN SOUKUP: They want Western investment in that they want Western capital; they don't want Western ownership of the stakes of the company.

BALLARD: OK. And then I did have-- you, you probably do this research across the across the, across the country, correct? Or some-- along the lines of investment? The introducer of the bill talked about other states that have divested.

STEPHEN SOUKUP: Yes.

BALLARD: Can you talk a little more, give a little, little more insight? Have they lost money? Have they lost revenue?

STEPHEN SOUKUP: By divesting from Chinese companies, restricted entities?

BALLARD: Right.

STEPHEN SOUKUP: I couldn't tell you for certain, but I doubt that they have, given that direct foreign investment in China has dropped from over $300 billion in 2021 to just over $18 billion, so a significant drop in just three years by 2024. I would think that you lose more money by staying invested in Chinese-operated entities rather than pulling the money from them.

BALLARD: OK, I'll see if there's any additional questions, but I do have one final. I guess the issue I have is, is the divestment-- is it more of a we don't want to invest in, in countries that want to destroy us? Or is it more of the investment in China is a bad investment? Or is it both?

STEPHEN SOUKUP: It's both. From a fiduciary perspective, investment in China requires certain risk tolerance. And that risk tolerance is something that public pensions cannot tolerate. They cannot handle that risk tolerance. It is something that is specifically would be practical for private investors under circum-- certain circumstances, but it's not something that would be prudent for public investments.

BALLARD: OK. Seeing addition-- no additional questions, thank you for your testimony.

STEPHEN SOUKUP: Thank you.

BALLARD: Appreciate it. Next proponent to LB1095.

TOM RAWLINGS: Good afternoon, Chairman Ballard, and members of the committee. My name is Tom Rawlings, T-o-m R-a-w-l-i-n-g-s. I am the policy director for a group called State Shield. We were formed about three years ago to-- really to work with states, educate legislators about the threat of China. I'm here to simply support this bill. One of the questions that you asked a moment ago was have-- other states, of course, have already begun the process of divesting from China. We have, I believe, at this state-- stage Arkansas, Indiana, Florida, Kansas, Iowa, Tennessee, Ari-- excuse me. Texas, Missouri, Oklahoma, and Texas. And I think it's important to note that Indiana was one of the early states. They actually divested four years ahead of schedule. Again, all these states are doing it in a reasonable, prudent, investor manner. So, they're doing it as they can. And Indiana reported last year that they had done so successfully without a loss of money. So, that help-- I hope that helps answer your question. To me, this is not a partisan issue, it's a human rights issue. My-- a lot of my background is in child welfare and human rights. The, the problem is that the Chinese authoritarian government is not a-- it's not a free market. We are, we are-- we should not be encouraging the investment of taxpayer dollars in companies that are subject to and often are controlled by the Chinese government. We should not be investing taxpayer dollars in companies that are, are complicit in the persecution of the Uyghurs, complicit in the Chinese surveillance state, complicit in the theft of intellectual property from the United States. Just this past week, you may have seen that a former major in the U.S. Air Force who was skilled in flying F-35s or training individuals flying F-35s was arrested after coming back from China and having trained Chinese pilots in that. Why was he able to, to, to train those pilots in the F-35? Because the Chinese stole the F-35. Everybody recognizes it. The, the company that, that stole it and is making the Chinese version is AVIC. It is a publicly-traded company, and it, it is actually owns another company called Cirrus. So, the point being is that because of China's-- especially under Xi Jinping, they're really focused on becoming more authoritarian and becoming more aggressive. It's, it's simply not a good investment of taxpayer dollars. I'm really here mostly to answer any questions you have, and of course to lend my support on this bill. I think this is a great idea, more that we can ensure that taxpayer dollars are not supporting an authoritarian regime that can, at any minute, come in and, and shut a company down, as they, they did to some extent with Jack Ma and AliBaba. When Jack Ma in 2020 criticized the government, they, they disappeared him for a few years. And it's really-- it's historic. So, thank you.

BALLARD: Thank you. Thank you for your testimony. Are there questions? Senator Sorrentino.

SORRENTINO: Thank you, Chairman Ballard. Thank you for your testimony. I'm not in the investment, but my whole career has been fiduciary obligations. And I'm curious, and I don't even know if you're an attorney. I'm not asking for a legal opinion. But given our current investment policy in Nebraska, have you heard of other states that have been challenged legally, perhaps violating their fiduciary responsibilities by continuing in these investments?

TOM RAWLINGS: I have not heard of, of, for example, of a court case challenging the decision. I would say that it is my approach [INAUDIBLE]--

SORRENTINO: Well, then in your expertise, is there a risk? I'll just ask that.

TOM RAWLINGS: I, I would say that there is a risk that-- for example, if you know that you're investing in a, in a-- in companies that are controlled by a, a hostile foreign government, and China is able to do this through golden shares, through a coercion of, of leaders of those companies-- if you read Frank Dikötter's books about the great famine, the cultural revolution in China after Mao, you will see a consistent pattern of the Chinese government, really under the mask of free enterprise, actually controlling companies. So, I believe that it is a significant risk. And were I in a fiduciary position, I would not be investing my client's money in a place that, that tomorrow, honestly-- for example, AVIC, the Chinese manufacturer I was talking about, they were put on the blacklist because of what they had done with the F-35s and other spying. So, you may, you may find tomorrow that the Chinese have turned against a company, or that a company has been put on a blacklist by the U.S. government, and suddenly you're out of money. It's not as if you're going to be able to recoup it. Chinese-- there is no rule of law in China. You can't go over there and sue them successfully very well. And I think the, you know, the-- really, the great example, example of this, that this is not a partisan issue, this is simply a fiduciary issue, is that in 2023 under the Biden administration, the federal thrift program, one of the largest pension funds, completely decided to divest from China for the fiduciary risk issue.

SORRENTINO: I, I-- speaking only for myself, I'm not an investment expert, anything like our other testifiers. But I do understand fiduciary obligations, and my ears perk up when I hear that. Way more than the questions I'll ask about the actual accounting. Thank you.

TOM RAWLINGS: Thank you.

BALLARD: Thank you, Senator Sorrentino. Senator Conrad.

CONRAD: Thank you so much, Chair. And thank you for-- where'd you fly in to be here from today?

TOM RAWLINGS: Atlanta.

CONRAD: From Atlanta.

TOM RAWLINGS: Yeah.

CONRAD: OK. And then, I'm sorry, just didn't catch it at the beginning. Do you have personal expertise or experience in public finance or retirement systems? Or do you focus mainly on public policy advocacy?

TOM RAWLINGS: Public policy. I actually, if you want to know my background, I graduated from Duke University, I have a law degree from the University of Georgia, a master's in international human rights law from Oxford University. I've spent 25 years in child welfare. I'm a child welfare attorney by training, and I keep-- and as a result of that, I very-- got very interested in this issue because of the human rights issue.

CONRAD: OK. And then you said you're here representing State Shield, is that right?

TOM RAWLINGS: That is correct.

CONRAD: And so, a quick look at your website shows that State Shield is primarily concerned about Bill Gates, Bird Flu, China, Dr. Fauci, gold and silver, Klaus Schwab, and monkeypox, along with the Rockefeller Institute, TikTok, and mistrust for the WHO. So, those seems to be the, the primary areas of your focus at, at your advocacy organization?

TOM RAWLINGS: I'm sure there are issues regarding that on the, on the website. I haven't looked at it lately. As I said, my, my issue,--

CONRAD: OK.

TOM RAWLINGS: --my interest in this is coming from a human rights perspective, and I think that-- I would hope that we can all agree that we should not be supporting an authoritarian regime that, that persecutes its own people and is committing genocide against the Uyghur population with the assistance of some of these companies.

CONRAD: Mm-hmm.

TOM RAWLINGS: And so, regardless of what, you know, we may-- there may be policy differences about other things that State Shield may do or not do, or other organizations may do or not do. But I would think that we can agree that taxpayer dollars shouldn't be supporting human rights violations, they should not be supporting the growth of the Chinese military, especially given its current aggressive status.

CONRAD: Do you happen to know what foreign entities, what foreign countries hold the most U.S. debt?

TOM RAWLINGS: I, I would imagine that China has a great deal of our debt.

CONRAD: I think you're right. OK. Thanks so much. No questions.

BALLARD: Thank you, Senator Conrad. Any additional questions? I do have one question. Are there private fund-- private large investment funds that are maybe not divesting completely but starting to, to shy away from investment in China?

TOM RAWLINGS: So, if you-- and again, I know what I read. I'm, I'm-- you know, Senator, I'm not as much of an expert-- I'm not a-- certainly not even a CPA like I understand you are, Senator. But if you read the press, you'll see that there is a great-- there's been a great growth in the last year or two years in what I'd call emerging markets excluding China in terms of index funds, that sort of thing. So, not only do you see the, the states doing this, the federal government doing this, but also see that there's-- from what I read, there's a much greater interest in, in, in setting up funds that, you know, are investing globally, certainly, but are not-- are making sure that their client's money is not going into China.

BALLARD: OK. Thank you. Any final questions? Seeing none. Thank you for coming.

CONRAD: Thank you. Thanks. Thanks.

TOM RAWLINGS: Thank you so much.

BALLARD: Additional proponent testimony? Good afternoon.

ADAM SCHWEND: Good afternoon, Chairman Ballard, members of the committee. Thank you for the opportunity to testify today. My name is Adam Schwend, A-d-a-m S-c-h-w-e-n-d, and I am the executive vice president of Look to the States. Look to The States advocates for public policy that elevates our core values: free markets, a free society, and federalism. In particular, we work with state financial officers across the country to promote fiscally-responsible policies that protect taxpayers, safeguard public pensions, and ensure state investments serve American interests first. We strongly support LB1095. The bill is a smart, targeted, and overdue measure to protect Nebraska's retirement systems, the Nebraska Educational Saving Plan Trust, the ABLE program, and other state funds from investments in restricted entities tied to the Chinese Communist Party. LB1095 does three critical things. It prohibits the Nebraska Investment Council and State Investment Officer from making new investments in Chinese companies and entities flagged by the U.S. government national security lists. It requires the identification and orderly divestment of existing holdings as soon as practicable while fully respecting fiduciary duties. It mandates some annual transparency, transparency reports to you, the Legislature, and charges the State Treasurer with publishing and regularly updating the list of restricted entities. This is not about politics; it's about fiduciary responsibility. Nebraska's public employees, teachers, first responders, and retirees deserve to know that their retirement savings are not being used, even indirectly, to underwrite the Chinese Communist Party's military modernization, forced labor programs in Xinjiang, or technology theft that harms American workers. The risks are simply too high. Lack of transparency, CCP control over listed companies, and the very real possibility that today's investment becomes tomorrow's strategic vulnerability. By aligning Nebraska's investment policy with existing federal restrictions, LB1095 protects pension beneficiaries, reduces unnecessary risks, and sends a clear message that Nebraska will not subsidize our chief strategic competitor. We commend Senator Andersen for introducing this important legislation. States have repeatedly shown leadership on this issue when federal timelines move to a close, and Nebraska is now poised to join the growing number of states taking concrete action to safeguard public dollars. Thank you for considering this bill. Look to the States stands ready to support your work on this and any related issues. Thank you very much.

BALLARD: Thank you for your testimony. Are there any questions? Senator Sorrentino.

SORRENTINO: Thank you. Are you familiar-- there's an acronym called PBGC, pension benefit guarantee corporation.

ADAM SCHWEND: I'm familiar with the acronym.

SORRENTINO: You pay a fee per person.

ADAM SCHWEND: Sure.

SORRENTINO: It used to be just a dollar; now, it's a lot more than that. My, my question is, do you know if they have any opinions whatsoever in these types of investments? And I know these are public investments, not private defined benefit plans. But are you aware that they have any--

ADAM SCHWEND: I can't-- I-- I'm not aware of that, and I wouldn't want to speak inappropriately.

SORRENTINO: All right. Thank you.

BALLARD: Thank you, Senator Sorrentino. Senator Conrad.

CONRAD: Thank you. So, I see that Look to the States-- this is something that is new to me. I've not heard of it before, and it looks like from your press release that it's a pretty new organization--

ADAM SCHWEND: Yeah. We--

CONRAD: --that was just unveiled in, like, October 2025-ish, give or take.

ADAM SCHWEND: Correct, correct. Yeah, we are relatively new. We've existed under, under a different name called SFOF Action. We just rebranded ourselves. We, we were, were a squad connected to a, a (c)(3) organization called the State Financial Officers Foundation. We, we work-- the State Financial Officers Foundation-- which is a separate (c)(3), I must make that very, very clear-- is an organization that works with state auditors and treasurers to protect traditional fiduciary duties.

CONRAD: OK. And then why'd you rebrand, exactly?

ADAM SCHWEND: Oh, we want to just be able to have a-- to, to have a little more of an original name. It was more of a marketing move than anything else, and just adding "action" to the end.

CONRAD: OK. And it looks like your primary objective is to combat-- your words-- quote-unquote "woke investors." Is that right?

ADAM SCHWEND: Yeah, it's important to us that we move financial, financial policy and investment policy to neutral. We have no interest in creating Republican talking-pointed investment policy, just as we don't have interest in putting political ideas to the left into investment policy. Just with pure, traditional, pecuniary, fiduciary duties.

CONRAD: Isn't that exactly what stands in contrast to what LB1095 wants to do in your organization's mission? If you think

ESG is bad because people want to have investments in relation to environmental concerns, and on the left or on the right, people want to take a hard line on China and those investment kind of things. So, you're saying you want to keep politics out of, out of our investment decisions, but you're here supporting a political push on our investment decisions. So, that seems kind of strange.

ADAM SCHWEND: Oh, I'd push back a little bit on, on, on that characterization because I believe, as been-- said, said numerous times that the, the, the-- this is not only a, a, a political move, but a, a reality that when you're investing in your strategic competitor, you are-- that is not a particularly fiduciary move to make. And we've also seen really questionable moves being made through the, through the Chinese economy, as we've heard before. So, I believe this is a, a fiduciary responsible move, and not one based on politics.

CONRAD: OK. Have you brought forward any litigation if you find that, say, for examples, Nebraska investment officers aren't meeting their fiduciary duties? Because that's, that's well established in law.

ADAM SCHWEND: We don't bring forth any, any legal challenges. We've never done that on either side. Probably don't have plans to do that in the future. We're [INAUDIBLE] again, speaking, I must say that I'm speaking for Look to the States, that's just not a direction we intend to go.

CONRAD: OK. So, the-- your contention is that in our current configuration, there is no concern about not meeting fiduciary duty.

ADAM SCHWEND: Through Nebraska's, or? I can't say that one way or another. I'm just saying that we don't intend to bring any sort of litigation. That's just not within our, within our budget, for one.

CONRAD: OK. Thanks so much.

BALLARD: Thanks, Senator Conrad. Seeing no additional questions, thanks for being here.

ADAM SCHWEND: Thank you.

BALLARD: Next proponent for LB1095. Seeing none. Anyone in opposition to LB1095? Seeing none. Anyone in the neutral capacity to LB1095? Seeing none. As Senator Andersen comes back up, we had no ADA testimony, no proponent written, 1 opposition testimony, and 2 in the neutral. Senator Andersen, you're welcome to close on LB1095.

ANDERSEN: Thank you, Chairman Ballard. I'd like to just-- before I start my close, I'd just like to make one comment on Senator Conrad's comment now saying that LB1095 is a political push on an investment decision. And this is certainly not political. It has nothing to do with politics; it has everything to do with protecting the investments of the hardworking Nebraskans, and making sure that we're not supporting the people that want to do us harm. That's not political, that is simply down-to-earth reality of what the bill says. So, Chairman Ballard, and members of the retirement community, I would like to thank the testifiers here as well. LB1095 is a proactive and prudent measure that ensures Nebraska does not repeat the "colicy" mistakes made by other states which maintain investments in adversarial nations. We cannot afford to wait until a financial collapse or geopolitical escalation forces immediate action with a negative outcome. LB1095 ensures that our investments are aligned with national security interests while preserving fiscal responsibility by requiring divestment only when financially prudent. Lastly, the Forbes article, handout 3-- I assume you're OK with Forbes-- discusses Berkshire Hathaway as managed by Warren Buffett, and Mr. Munger has completely divested its share in the Chinese electric vehicle company BYD. In other communications, Mr. Buffett announced Berkshire Hathaway has completely divested from China. If Mr. Buffett is divested from China, I ask you, why are Nebraska retirement dollars still there? I thank you for the-- for your time. I look forward to working with this committee to bring the bill out to the floor for full consideration, and I'm happy to answer any questions at this time.

BALLARD: Any questions? Senator Sorrentino.

SORRENTINO: Thank you. Senator Andersen, I wonder if in the interim here, as we study this bill, I believe it was Mr. Soukup was talking about some of the investments in China, holdings really go through shell companies and the Cayman Islands, and we're not really holding ownership in those companies as much as we are holding in-- what I believe he called probably a conduit company. I would love to get some more information on that, if you have a chance to do that.

ANDERSEN: Yeah, I would like that too, and that's one of the conversations I've had with Ms. Hung in requesting information on what exactly the holdings are of the Nebraska retirement. Most of it is all talked about the comparison with the-- one of the Chinese index funds. So, I think it would be critical going forward to look at specifically, what are we invested in? And I'll give you another example. I can give you a handout if you'd like, but-- where Tencent the company Tencent, Chinese company, was recently put on the blacklist because of their affiliation with the Chinese military. So, it'd be interesting to go back and scrub and look all the companies that are actually on the blacklist that are prohibited. Are those-- are there any that are actually in there or, or not? But with the other kind of fidelity, if you just say, oh, it's just-- this, this fund is how China trends, that's the kind of feedback that I'm getting, and I'm not getting the very specific information that I requested. So, I, I agree with you, and I would appreciate the information as well.

SORRENTINO: Thank you.

BALLARD: Thank you Senator Sorrentino. Senator Conrad.

CONRAD: Thank you, Chair. Thank you, Senator Andersen. Quick question. Just-- if you really want to focus on risk, which is a sound policy underpinning for all the business coming through this committee for our investments, for our retirement system, have you had a chance, or do you know off the top of your head, if you didn't know-- do you know how the State Investment Officer and the investment council currently assesses risk?

ANDERSEN: No. That's not part of my responsibility.

CONRAD: Oh, OK. I thought you said that was the main impetus for your bill.

ANDERSEN: I think by being invested in China, there's an inherent risk already, as some of the handouts talk about. The, the impending collapse of the China economy, or the significant downward trends from property and investments, that the majority of investments are already-- actually outgoing, where China's investing in the West, but there's very little investment into China now. So, there's a series of different indicators that the Chinese economy is not really the place to be.

CONRAD: Mm-hmm. Do-- but, Senator Andersen, have you had a chance to ask Ms. Werner-Robertson or Ms. Hang [SIC] how they assess risk and whether or not they take into account these and other factors when making investment decisions?

ANDERSEN: No, I have not.

CONRAD: OK. That might be a good place to start. Thanks.

BALLARD: Thank you, Senator Conrad. Any additional questions? Seeing none. Thank you, Senator Andersen.

ANDERSEN: Thank you.

BALLARD: That will close our hearing on LB1095, and our hearings for the day.