Senate Engrossed

China; public funds; divestment

State of Arizona
Senate
Fifty-seventh Legislature
First Regular Session
2025

CHAPTER 156

SENATE BILL 1221

AN ACT

AMENDING TITLE 35, CHAPTER 2, ARIZONA REVISED STATUTES, BY ADDING ARTICLE 11; RELATING TO PUBLIC MONIES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Title 35, chapter 2, Arizona Revised Statutes, is amended by adding article 11, to read:

ARTICLE 11. DIVESTMENT FROM CHINA

35-395. Publicly managed funds; Chinese companies and investments; divestment; immunity; severability; definitions

A. A PUBLICLY MANAGED FUND MAY NOT HOLD AN INVESTMENT IN ANY OF THE FOLLOWING:

1. THE PEOPLE'S REPUBLIC OF CHINA.

2. A COMPANY THAT IS OWNED BY THE PEOPLE'S REPUBLIC OF CHINA.

3. A COMPANY THAT IS DOMICILED, INCORPORATED OR HEADQUARTERED WITHIN THE PEOPLE'S REPUBLIC OF CHINA.

4. A COMPANY THAT IS CONTROLLED BY THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA, THE CHINESE COMMUNIST PARTY, THE CHINESE MILITARY OR ANY INSTRUMENTALITY OF THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA, THE CHINESE COMMUNIST PARTY OR THE CHINESE MILITARY.

5. A COMPANY THAT IS MAJORITY-OWNED BY AN ENTITY CONTROLLED BY THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA, THE CHINESE COMMUNIST PARTY, THE CHINESE MILITARY OR ANY INSTRUMENTALITY OF THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA, THE CHINESE COMMUNIST PARTY OR THE CHINESE MILITARY.

B. SUBSECTION A OF THIS SECTION DOES NOT APPLY TO A COMPANY SOLELY BECAUSE THE COMPANY HAS A SUBSIDIARY OR AFFILIATE DESCRIBED IN SUBSECTION A, PARAGRAPHS 1 THROUGH 5 OF THIS SECTION.

C. EXCEPT AS PROVIDED IN SUBSECTION D OF THIS SECTION, ON THE EFFECTIVE DATE OF THIS SECTION, A PUBLICLY MANAGED FUND SHALL IMMEDIATELY BEGIN DIVESTMENT OF ANY HOLDINGS OR INVESTMENTS PROHIBITED BY SUBSECTION A OF THIS SECTION. A PUBLICLY MANAGED FUND SHALL COMPLETE TOTAL DIVESTMENT AS SOON AS FINANCIALLY PRUDENT BUT NOT LATER THAN ONE YEAR AFTER THE EFFECTIVE DATE OF THIS SECTION. IN ORDER TO IDENTIFY THE PROHIBITED HOLDINGS OR INVESTMENTS, EACH PUBLICLY MANAGED FUND SHALL DO AT LEAST ONE OF THE FOLLOWING:

1. REVIEW PUBLICLY AVAILABLE INFORMATION REGARDING THE COMPANIES AND INVESTMENTS, INCLUDING INFORMATION PROVIDED BY NONPROFIT ORGANIZATIONS, RESEARCH FIRMS AND GOVERNMENTAL ENTITIES.

2. CONTACT ASSET MANAGERS AND FUND MANAGERS CONTRACTED BY A PUBLICLY MANAGED FUND THAT INVEST IN COMPANIES AND IN FUNDS THAT ARE OWNED BY OR ARE DOMICILED WITHIN CHINA OR WHOSE PRIMARY AFFAIRS ARE CONDUCTED WITHIN CHINA.

3. CONTACT INSTITUTIONAL INVESTORS THAT HAVE DIVESTED FROM OR ENGAGED WITH COMPANIES THAT ARE OWNED BY OR ARE DOMICILED WITHIN CHINA OR WHOSE PRIMARY AFFAIRS ARE CONDUCTED WITHIN CHINA.

4. RETAIN AN INDEPENDENT RESEARCH FIRM TO IDENTIFY COMPANIES THAT ARE DIRECT OR INDIRECT INVESTMENT HOLDINGS OF THE PUBLICLY MANAGED FUND

AND THAT ARE OWNED BY OR ARE DOMICILED WITHIN CHINA OR WHOSE PRIMARY AFFAIRS ARE CONDUCTED WITHIN CHINA.

D. A PUBLICLY MANAGED FUND IS NOT REQUIRED TO DIVEST HOLDINGS OR INVESTMENTS PROHIBITED BY SUBSECTION A OF THIS SECTION IF LESS THAN ONE PERCENT OF THE VALUE OF THE TOTAL HOLDINGS OR INVESTMENTS OF THE FUND ARE MADE UP OF INVESTMENTS IN CHINESE COMPANIES AND THE COST TO THE PUBLICLY MANAGED FUND OF DIVESTING FROM THE PROHIBITED HOLDINGS OR INVESTMENTS OVER THE NEXT FIVE YEARS IS MORE THAN ONE PERCENT OF THE VALUE OF THE TOTAL HOLDINGS OR INVESTMENTS OTHERWISE PROHIBITED PURSUANT TO SUBSECTION A OF THIS SECTION.

E. THIS SECTION DOES NOT INHIBIT, CONFLICT WITH, IMPEDE OR OTHERWISE INTERFERE WITH ANY REQUIRED FINANCIAL SAFEGUARDS, FIDUCIARY REQUIREMENTS OR OTHER SOUND INVESTMENT CRITERIA THAT A PUBLICLY MANAGED FUND IS SUBJECT TO, INCLUDING ANY OBLIGATIONS WITH RESPECT TO CHOICE OF ASSET MANAGERS, INVESTMENT FUNDS OR INVESTMENTS FOR FUND INVESTMENT PORTFOLIOS.

F. WITH RESPECT TO ANY ACTION PERFORMED PURSUANT TO THIS SECTION, EACH PUBLICLY MANAGED FUND AND ANY PERSON ACTING ON BEHALF OF THE PUBLICLY MANAGED FUND:

1. ARE EXEMPT FROM ANY CONFLICTING STATUTORY OR COMMON LAW OBLIGATION OR FIDUCIARY DUTIES WITH RESPECT TO CHOICE OF ASSET MANAGERS, INVESTMENT FUNDS OR INVESTMENTS.

2. ARE SUBJECT TO TITLE 12, CHAPTER 7, ARTICLE 2 REGARDING IMMUNITY FOR ACTS AND OMISSIONS.

3. ARE INDEMNIFIED AND HELD HARMLESS BY THIS STATE FROM CLAIMS, DEMANDS, SUITS, ACTIONS, DAMAGES, JUDGMENTS, COSTS, CHARGES AND EXPENSES, INCLUDING ATTORNEY FEES, AND AGAINST ALL LIABILITY, LOSSES AND DAMAGES BECAUSE OF A DECISION TO SELL, REDEEM, DIVEST OR WITHDRAW HOLDINGS OF A RESTRICTED COMPANY MADE PURSUANT TO THIS SECTION.

G. IF ANY PROVISION OF THIS SECTION OR ITS APPLICATION TO ANY PERSON OR CIRCUMSTANCE IS HELD INVALID, THE INVALIDITY DOES NOT AFFECT ANY OTHER PROVISION OR APPLICATION OF THIS SECTION THAT CAN BE GIVEN EFFECT WITHOUT THE INVALID PROVISION OR APPLICATION, AND TO THIS END THE PROVISIONS OF THIS SECTION ARE SEVERABLE.

H. FOR THE PURPOSES OF THIS SECTION:

1. "COMPANY" MEANS ANY SOLE PROPRIETORSHIP, ORGANIZATION, ASSOCIATION, CORPORATION, PARTNERSHIP, JOINT VENTURE, LIMITED PARTNERSHIP, LIMITED LIABILITY PARTNERSHIP, LIMITED LIABILITY COMPANY OR OTHER ENTITY OR BUSINESS ASSOCIATION, INCLUDING A WHOLLY OWNED SUBSIDIARY, A MAJORITY-OWNED SUBSIDIARY, A PARENT COMPANY OR AN AFFILIATE OF THOSE ENTITIES OR BUSINESS ASSOCIATIONS, THAT EXISTS FOR THE PURPOSE OF MAKING A PROFIT, INCLUDING A BANK OR OTHER FINANCIAL INSTITUTION.

2. "DIVESTMENT" MEANS THE SALE, FORFEITURE OR OTHER CONTRACTUAL END OF ANY CURRENT OR PLANNED INVESTMENTS.

3. "DOMICILE" MEANS THE COUNTRY WHERE A COMPANY IS REGISTERED, WHERE THE COMPANY'S AFFAIRS ARE PRIMARILY COMPLETED OR WHERE THE MAJORITY OF THE OWNERSHIP SHARE IS HELD.

4. "INVESTMENT" MEANS A TRANSFER OF MONIES INTO ANY ACTIVE, PASSIVE, DIRECT OR INDIRECT STRUCTURE THAT SEEKS TO GENERATE REVENUE OR ACCOMPLISH ANY OTHER GAIN, INCLUDING NONMONETARY GAINS.

5. "PUBLICLY MANAGED FUND" MEANS A SHORT-TERM OR LONG-TERM INVESTMENT STRUCTURE THAT IS MANAGED, RUN, CONTROLLED OR OTHERWISE OVERSEEN BY THIS STATE OR A POLITICAL SUBDIVISION OF THIS STATE.

Sec. 2. Purpose

Given the increased economic, political and military tension between the United States and China, it is the policy of this state to:

1. Stop funding companies connected to the People's Republic of China, the Chinese Communist Party and the Chinese military.

2. Divest all state and local assets from companies connected to the People's Republic of China, the Chinese Communist Party and the Chinese military.

3. Prohibit state and local funds from being invested in any Chinese companies or investments.

Sec. 3. Applicability

Section 35-395, Arizona Revised Statutes, as added by this act, applies to any private equity or venture capital investments entered into or renewed from and after the effective date of this act.

APPROVED BY THE GOVERNOR MAY 12, 2025.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MAY 12, 2025.