

Date of Hearing: January 8, 2020

ASSEMBLY COMMITTEE ON PUBLIC EMPLOYMENT AND RETIREMENT

Freddie Rodriguez, Chair

AB 979 (Reyes) – As Amended January 6, 2020

SUBJECT: Asset Management: Emerging Managers

SUMMARY: Requires the Board of Administration of the California Public Employees' Retirement System (CalPERS) and the Teachers' Retirement Board of the California State Teachers' Retirement System (CalSTRS) to each provide an annual report to the Legislature on the use of emerging managers, as specified. Specifically, **this bill:**

- 1) Requires, beginning March 1, 2021, and annually thereafter, CalPERS and CalSTRS each to submit a report to the Legislature on the status of achieving appropriate objectives and initiatives regarding participation of emerging managers responsible for asset management within their respective portfolios of investments.

The report must identify and include all of the following:

- a) The name of each emerging manager providing investment portfolio or asset management services, at the end of the prior fiscal year, including, but not limited to, fund of fund contracts, for all applicable asset classes.
 - b) The amount managed by each emerging manager by asset class at the end of the prior fiscal year.
- 2) Provides that the reporting requirements apply to new contracts with emerging managers entered into by CalPERS and CalSTRS, respectively, on January 1, 2020, and based on information from the prior fiscal year.
 - 3) Provides that CalPERS and CalSTRS must define the term "emerging manager" for these purposes.
 - 4) Provides that CalPERS and CalSTRS are not required to take action unless their respective boards determine in good faith that the action, as provided, is consistent with their fiduciary duties as described in the California Constitution.
 - 5) Provides that CalPERS and CalSTRS are not required to disclose information that is excepted from disclosure as provided under existing law.

EXISTING LAW:

- 1) As provided in Article XVI of Section 17 of the California Constitution, the boards of California's public retirement systems have "plenary authority and fiduciary responsibility for investment of monies and administration of the system." In addition, "[t]he members of the

retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system."

- 2) Pursuant to Chapter 701, Statutes of 2011 (Senate Bill 294, Price), required CalPERS and CalSTRS to provide a five-year strategic plan for emerging manager participation across all asset classes, and to submit an annual report to the Legislature regarding the progress of the strategic plan.

This law was automatically repealed on January 1, 2018, due to a sunset clause which was not repealed nor extended.

FISCAL EFFECT: Unknown. This bill is flagged as fiscal by Legislative Counsel.

COMMENTS: According to the author, "[p]reviously, CalPERS and CalSTRS were required to provide a five-year strategic plan for emerging manager participation across all asset classes of their investments, and to submit an annual report to the Legislature regarding the progress of their strategic plans.

'Although CalPERS and CalSTRS submitted reports to the Legislature last year, that law sunset on January 1, 2018. Assembly Bill 979 simply places back into law, required annual reports to the Legislature from CalPERS and CalSTRS regarding their use of emerging managers for purposes of investment and asset management.'

1) CalPERS' and CalSTRS' Emerging Manager Programs

For numerous years, CalPERS and CalSTRS each have utilized emerging managers to assist not only in the diversity of investment firms for purposes of asset management, but also in the diversity of their respective investment portfolios. The emerging manager programs serve as incubators for these firms towards gaining valuable experience in managing investment assets of the pension funds.

The term "emerging manager" is left to the respective Boards of CalPERS and CalSTRS to define. Generally, this term typically relates to start-up, relatively new, and minority and women-owned investment firms.

2) Comments by Supporters

According to the California Judges Association, "[f]or numerous years, each system has utilized emerging managers to assist not only in the diversity of investment firms for purposes of asset management, but also in the diversity of their respective investment portfolios. The emerging manager programs also serve as incubators for these firms towards gaining valuable experience

in the investment arena. [This bill] would recodify required annual reporting to the Legislature relating to the use of emerging managers within the investment portfolio.”

3) Prior or Related Legislation

Assembly Bill 181 (Rodriguez, 2019) was substantially similar to the current measure. This bill subsequently was gutted and amended in the Senate to address an unrelated matter.

Assembly Bill 462 (Rodriguez, 2019) was substantially similar to the current measure and held in the Senate Rules Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

California Judges Association

Opposition

None on file

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