

Date of Hearing: April 29, 2021

ASSEMBLY COMMITTEE ON PUBLIC EMPLOYMENT AND RETIREMENT

Jim Cooper, Chair

AB 890 (Cervantes) – As Amended March 11, 2021

**SUBJECT:** Public employee retirement systems: investment management: reports

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

- 1) Requires, beginning March 1, 2022, 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 be based on contracts that CalPERS and CalSTRS, respectively, enter into on and after January 1, 2021.

The report must identify and include all of the following:

- a) The name of each emerging manager or diverse 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 asset classes, as applicable.
  - b) The amount managed by each emerging or diverse manager by asset class at the end of the prior fiscal year, as well as the total amount allocated by the systems, respectively, in the applicable asset class during the year and the total amount of the asset class in each system's investment portfolio.
- 2) Requires CalSTRS and CalPERS, respectively, to define the terms "emerging manager" and "diverse manager" for these purposes.
  - 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 under the California Public Records Act, as specified.

**EXISTING LAW:**

As provided in Section 17 of Article XVI 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."

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

**COMMENTS:** According to the author, "Access to investment capital for women and minority-owned businesses is vital to underserved communities throughout California. The availability of capital means the difference between a community that can build both individual and community wealth through flourishing businesses and job opportunities, and those communities that stay stagnant. With almost seven hundred billion in assets, CalPERS and CalSTRS represent one of the most important, yet, underutilized tools in California's toolbox to confront societal inequalities. By requiring CalPERS and CalSTRS to disclose gender and diversity data, [this bill] will bring transparency and accountability to the asset management industry."

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

The New America Alliance states in part that, "In many ways, the COVID-19 pandemic amplified many of the social inequities access to capital for women and minority-owned businesses could help address. Ethnic communities, where a historic lack of economic opportunities and investment has defaulted entire populations into "essential" work, vastly increased the incidence of infection, severity, and lethality of the virus.

"Unfortunately, unequal opportunity creates an unequal society. As noted in a study by Stanford researchers entitled "Race Influences Professional Investors' Financial Judgements," investments begin with asset allocators like CalPERS and CalSTRS and flow through the

professional money managers they hire before taking root in companies and projects across society. Disparities in who manages assets is therefore reflected and reinforced throughout the economy as these managers decide how capital is distributed and where and in what it will be invested. By extension, the biases of the fund managers that are selected, along with the systemic underutilization of women and diverse managers, plays a significant role in the inequitable distribution of capital that has relegated entire communities to despair and poverty, while others flourish through wealth creation and opportunities for upward mobility.

“California cannot have shared success without shared opportunity and achieving that goal will require the state to take a serious look at how the fund manager decisions of CalPERS, CalSTRS, and other institutional investors, can ricochet across the economy. [This bill] is an important first step in providing policy makers with the data they need to conduct this assessment.”

### 3) Prior or Related Legislation

Assembly Bill 462 (Rodriguez, 2019) was similar to the current bill; however, this bill was held by the Senate Rules Committee.

Assembly Bill 181 (Rodriguez, 2019) was similar to the current bill. This bill was subsequently amended to address an entirely different subject matter.

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 that was not extended.

### **REGISTERED SUPPORT / OPPOSITION:**

#### **Support**

New America Alliance (*Sponsor*)

Association of Asian American Investment Managers

#### **Opposition**

None on file.

**Analysis Prepared by:** Michael Bolden / P. E. & R. / (916) 319-3957