

ASSEMBLY THIRD READING

AB 890 (Cervantes)

As Amended May 24, 2021

Majority vote

SUMMARY

Requires the respective boards of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) to each provide an annual report to the Legislature on the participation of emerging managers or diverse managers, among other provisions.

Major Provisions

- 1) Requires, beginning March 1, 2023, 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, 2022.

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, and that CalPERS and CalSTRS define the term "emerging manager" for these purposes.
 - 3) Provides that CalPERS and CalSTRS are not required to take action unless their respective boards determine in good faith that the action is consistent with their fiduciary duties as described in the California Constitution.
 - 4) Provides that CalPERS and CalSTRS are not required to disclose information that is excepted from disclosure under the California Public Records Act.
 - 5) Repeals these provisions on January 1, 2028, unless a later enacted statute deletes or extends that date.

COMMENTS*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.

Please see the policy committee analysis for a full discussion of this bill.

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 stagnate. 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."

Arguments in Support

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."

Arguments in Opposition

None on file

FISCAL COMMENTS

According to the Assembly Appropriations Committee, this bill would result in a moderate fiscal impact, less than \$150,000 annually, for CalPERS and CalSTRS to produce the reports each year.

VOTES

ASM PUBLIC EMPLOYMENT AND RETIREMENT: 5-1-1

YES: Cooper, Calderon, Cervantes, Cooley, O'Donnell

NO: Voepel

ABS, ABST OR NV: Seyarto

ASM APPROPRIATIONS: 13-3-0

YES: Lorena Gonzalez, Calderon, Carrillo, Chau, Fong, Gabriel, Eduardo Garcia, Levine, Quirk, Robert Rivas, Akilah Weber, Holden, Luz Rivas

NO: Bigelow, Megan Dahle, Davies

UPDATED

VERSION: May 24, 2021

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