
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2021 - 2022 Regular Session

AB 890 (Cervantes) - Public employee retirement systems: investment management: reports

Version: May 24, 2021

Urgency: No

Hearing Date: July 15, 2021

Policy Vote: L., P.E. & R. 5 - 0

Mandate: No

Consultant: Robert Ingenito

Bill Summary: AB 890 would require the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) to each produce and submit an annual report on the participation of emerging managers or diverse managers.

Fiscal Impact: CalSTRS indicates that it would incur annual personnel costs of approximately \$64,000 to collect information and product its report (State Teachers' Retirement Fund). CalPERS could accommodate the workload within existing resources.

Background: CalSTRS established its initial Emerging Manager Program in 2006. In accordance with SB 294 (Price), CalSTRS published its Diversity in the Management of Investments progress report on an annual basis and continues to report regularly after the law sunset in 2017. The reports developed over the years provide information on CalSTRS' efforts and commitment to diversity within the investment portfolio. The latest report, published in 2021, includes information on the gender, ethnic and age diversity of CalSTRS' internal Investments staff; provides details on the Student Intern and Investor Mentor programs; and gives an overview of CalSTRS' advocacy of environmental, social and governance issues through partnerships with various investment industries. The report also outlines the definition of emerging manager by asset class, the minimum qualifications to be an emerging manager within the portfolio and the process for considering investments with emerging managers.

Following the enactment of SB 294, CalPERS' Investment Office created an Emerging Manager Program to (1) integrate its emerging manager strategies across all asset classes, (2) improve communication and engagement with the emerging manager community, and (3) address the specific reporting requirements of the bill. The first report, the 2012 Emerging Manager Five-Year Plan, established a strategic framework of 10 work streams to address these portfolio management and external outreach activities. In 2015, the Investment Office created a Transition Manager Program to address the continuous maturity and development of its original Emerging Manager Program by providing a pathway for an emerging manager to be seriously considered as a traditional, established manager engaged by an Investment Office asset class. In 2017, as part of its final report mandated under SB 294, CalPERS adopted a new Emerging and Transition Manger 2020 Plan to continue the strategic framework established under the 2012 Emerging Manager Five-Year Plan. The 2020 Plan identifies appropriate objectives and initiatives to be undertaken over a three-year period ending June 30, 2020, including how transition managers will be identified,

evaluated, and selected, as well as the administration of two global solicitation processes seeking qualified candidates for the Transition Manager Program. The Investment Office team members report annually to the CalPERS Board on activities.

Proposed Law: This bill would do the following:

- Require, 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 systems must base the report on contracts that CalPERS and CalSTRS, respectively, enter into on and after January 1, 2022.
- Require that the report must identify and include the following:
 - 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.
 - 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. The bill also requires CalSTRS and CalPERS, respectively, to define the terms "emerging manager" and "diverse manager" for these purposes.
- Provide 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.
- Provide that CalPERS and CalSTRS are not required to disclose information that is excepted from disclosure under the California Public Records Act.
- Repeal these provisions on January 1, 2028, unless a later enacted statute deletes or extends that date.

Related Legislation:

- AB 462 (Rodriguez, 2019) was similar to the current bill. The bill was held by the Senate Rules Committee pursuant to a policy not to move report bills that provide no other material change to the law.
- AB 81 (Rodriguez, 2019) was also similar to the current bill, but was subsequently amended to address different subject matter.
- SB 294 (Price, Chapter 701, Statutes of 2011) 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 expired on January 1, 2018, in conformance with its sunset clause.

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