

BILL NUMBER: [AB 890](#) (Cervantes) as amended May 24, 2021

SUMMARY

AB 890 requires the boards of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS), commencing March 1, 2023, to submit an annual report to the Legislature on the status of achieving appropriate objectives and initiatives, as defined by the system's board, regarding participation of emerging or diverse asset managers in the systems' investment portfolios. The report must be based on contracts entered into on and after January 1, 2022, and must include specified information regarding each emerging or diverse manager. The bill sunsets on January 1, 2028.

BOARD POSITION

Neutral. It is the board's policy to take a neutral position on bills that do not significantly or adversely impact the benefits or services provided through the funds administered by CalSTRS or the administration of the retirement plans.

REASON FOR THE BILL

According to the author, AB 890 will ensure transparency and promote the inclusion of women- and minority-owned managers in the asset management industry.

ANALYSIS

Existing Law:

Chapter 701, Statutes of 2011 (SB 294-Price), required the Teachers' Retirement Board to define the term "emerging investment manager," provide a five-year strategic plan for emerging manager participation across all asset classes in the portfolio and submit an annual report to the Legislature on the progress of the strategic plan beginning March 1, 2014. CalSTRS developed a [Strategic Plan](#) and the [Diversity in the Management of Investments](#) report to fulfill this mandate. Although the law was sunset as of January 1, 2018, CalSTRS continues to produce this report. The report includes the definition of "emerging manager;" a breakdown of demographics within CalSTRS' internal Investments team based on age, gender and ethnic background; and the aggregated total assets under management by emerging managers by asset class.

This Bill:

AB 890 requires CalSTRS to submit an annual report, beginning March 1, 2023, on the status of achieving appropriate objectives and initiatives, as defined by the board, regarding the participation of emerging or diverse managers responsible for asset management within the system's investment portfolio. The report must be based on contracts entered into on and after January 1, 2022, and include:

- The name of each emerging or diverse manager providing investment portfolio or asset management services, including, but not limited to, fund of funds contracts, for all asset classes.
- The year these managers were first engaged or contracted to provide services.
- The amount managed by each of these managers by asset class.
- The total amount allocated by the system in the applicable asset class.
- The total amount of the asset class in the system's investment portfolio.

AB 890 also requires the board to define the terms "emerging manager" and "diverse manager," states the board is not required to take action unless it determines in good faith that the action required is consistent with its fiduciary responsibilities and confirms the board is not required to disclose information that is exempt under the Public Records Act. The bill sunsets on January 1, 2028, unless a later enacted statute deletes or extends that date.

The proposed report includes more specific details than the one mandated under Chapter 701, Statutes 2011. The prior report did not name specific emerging managers; did not include the term "diverse manager;" and did not include the year these managers were first engaged, the total amount allocated by the system to the applicable asset class or the total amount of the asset class in the system's investment portfolio.

LEGISLATIVE HISTORY

AB 462 (Rodriguez, 2019) would have reinstated requirement for CalSTRS to produce a similar report on emerging managers. This bill was held in the Senate Rules Committee.

SB 294 (Price, 2011) required the board to define the term "emerging investment manager," provide a five-year strategic plan for emerging investment manager participation across all asset classes and submit an annual report to the Legislature on the progress of the strategic plan beginning March 1, 2014, through January 1, 2018.

PROGRAM BACKGROUND

CalSTRS established its initial Emerging Manager Program in 2006. In accordance with Chapter 701, Statutes 2011, 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.

FISCAL IMPACT

Program Costs/Savings – Potential unknown costs to the investment portfolio if disclosure of information deters managers from doing business with CalSTRS.

Administrative Costs/Savings – Estimated personnel costs of approximately \$64,000 on an annual basis for information collection and production of the report. Unknown costs to define terms as required and to include applicable language in contracts and side letters addressing the required disclosures.

SUPPORT

The New America Alliance (Sponsor)
Association of Asian American Investment Managers

OPPOSITION

None known.

ARGUMENTS

Pros: Increases transparency around the participation of emerging and diverse managers in CalSTRS' investment portfolio.

Supports CalSTRS efforts towards transparency and accountability of its emerging managers within the investment management industry.

Con: Increases administrative costs to produce the report.

LEGISLATIVE STAFF CONTACT

Peter Elliott
Legislative Analyst,
CalSTRS Governmental Relations,
(916) 414-1183
pelliot@calstrs.com

Joycelyn Martinez-Wade
Director,
CalSTRS Governmental Relations,
(916) 414-1980
jmwade@calstrs.com