

Bill Number: SB 294 (Price) as amended on May 9, 2011

SUMMARY

SB 294, as amended, requires the CalSTRS board to define the term emerging investment manager, provide a 5-year strategic plan for emerging investment manager participation across all asset classes and submit an annual report regarding the progress of the strategic plan to the Legislature.

BOARD POSITION

SUPPORT. It is the policy of the board to adopt a support position on bills that are consistent with the investment policy adopted by the board as presented in the CalSTRS Statement of Investment Responsibility.

SUMMARY OF AMENDMENTS

On May 9, 2011, the measure was amended to remove the requirement that CalSTRS include in its 5-year strategic plan a 15 percent participation goal to increase emerging investment manager, eliminated the requirement to include benchmarks in the annual report and no longer requires the CalSTRS board to define the term emerging investment manager by regulations. The bill was also amended to include a provision noting nothing in this bill would require CalSTRS to take any action that is inconsistent with the fiduciary duties of the Board pursuant to Article 16, section 17 of the California Constitution.

PURPOSE OF THE BILL

This bill intends to increase emerging investment manager participation among pension fund asset managers to the same extent that they are represented in the U.S. or California population.

ANALYSIS

SB 294 requires the CalSTRS board to define the term emerging investment manager, and beginning August 1, 2012, provide a 5-year strategic plan for emerging investment manager participation across all asset classes. The measure requires CalSTRS, beginning March 1, 2014 through January 1, 2018, to submit an annual report regarding the progress of the strategic plan to the Legislature.

CalSTRS has been working diligently to increase participation of emerging investment managers, which include women and minorities, in the management of its investments in accordance with its fiduciary responsibility. CalSTRS plans to continue its practice of increasing diversity through the normal course of business in conjunction with investment goals aimed at achieving the maximum return at a prudent level of risk. If SB 294 is enacted, CalSTRS would continue with its existing plan to incorporate diversity in the management of its investments throughout the asset classes and measure the results accordingly.

CalSTRS currently makes significant efforts to encourage a broad range of investment managers to participate in managing CalSTRS funds. As a result, CalSTRS anticipates gradually increasing the number of emerging investment managers in all asset classes to meet its investment goals. If the increase is done gradually, there would not be an immediate impact on the selection of smaller managers and selection would be kept at the high CalSTRS standard. There would be minor and absorbable costs associated with reporting to the Legislature on an annual basis.

LEGISLATIVE HISTORY

AB 1913-Davis (2010-held in Assembly Appropriations Committee) would have required CalSTRS and CalPERS to report annually to the Legislature on the ethnicity and gender of emerging investment managers participating in the funds' management contracts.

PROGRAM BACKGROUND

Pension funds around the country have recently begun pursuing strategies to increase the diversity of their investing managers, recognizing these emerging managers as a source of untapped economic value. In this vein, CalSTRS has been pursuing strategies to expand the diversity of investment management, both internally and externally. In 2003, the board adopted Strength as one of CalSTRS Core Values, elaborated as ensuring the strength of CalSTRS by embracing a diversity of ideas and people, and set forth an objective to increase the diversity of investment managers, by focusing efforts on emerging managers. CalSTRS defines an emerging manager in terms of the size and longevity of the fund managers, without regard to gender or ethnicity. As a direct result of this effort, women and minorities now manage more than \$3 billion of assets for CalSTRS. CalSTRS has received national recognition, including several awards, for its efforts and actions to expand diversity within its investment portfolio and is seen as an industry leader and best practice model.

This dedication to diversity has brought about the development and approval by the board in February 2011 of a 5-year comprehensive business plan to expand diversity in the management of investments, which includes emerging investment managers. The plan is designed to formalize the commitment to diversity within CalSTRS and to make a statement to the industry that this is a long-term effort, as well as provide the Investment Committee, investment staff, and external consultants a plan of action for the next five years. The purpose of this business plan is to formalize the programs CalSTRS currently has in place, to set new goals, and establish a long-term plan. Diversity will be further interwoven across CalSTRS' entire investment portfolio and program—thus, making it a truly comprehensive plan.

FISCAL IMPACT

Program Cost – Unknown.

Administrative Costs/Savings – Minor and absorbable costs associated with reporting to the Legislature on an annual basis.

SUPPORT/OPPOSITION

Support:

None Known.

Opposition:

None Known.

ARGUMENTS

Pro:

Increase diversity in the management of CalSTRS investments

Con:

Not Available.

LEGISLATIVE STAFF CONTACT

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