

BILL ANALYSIS

Senate Research Center

S.B. 1447
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State Affairs
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Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The Teacher Retirement System of Texas (TRS) provides retirement, disability retirement, and death benefits for public school and certain higher education employees in Texas. While TRS investments have rebounded significantly since 2002, the existing portfolio is largely a reflection of the U.S. and international stock markets. The trust fund and benefits provided by TRS investments may face significant risk if those markets experience downturns.

S.B. 1447 authorizes TRS to buy and sell certain investments to manage investment risk. This bill additionally authorizes the delegation of investment responsibility to outside investment managers.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 825.301, Government Code, by adding Subsections (a-1), (a-2), (a-3), and (b-1) and amending Subsection (b), as follows:

(a-1) Provides that this subsection expires September 1, 2012, and applies to the investment and reinvestment of assets of the Teacher Retirement System of Texas (TRS) only if the investment or reinvestment is made before September 1, 2012. Authorizes the board of trustees of TRS (board of trustees) to buy and sell certain investments, in addition to any investment or reinvestment authorized by Subsection (a), only to efficiently manage and reduce the risk of the overall investment portfolio.

(a-2) Authorizes the board of trustees to delegate investment authority and contract with one or more private professional investment managers for investment and management of not more than 30 percent of the total assets held in trust by TRS. Requires the board of trustees, in a contract made under this subsection, to specify certain policies, requirements, or restrictions, including investment quality criteria or the use of standard rating services that the board of trustees adopts for investments of TRS. Prohibits the board of trustees from contracting under this subsection for investment and management services to be performed on or after September 1, 2012.

(a-3) Authorizes the board of trustees, for the purpose of carrying out its policy decisions, to delegate investment authority with respect to TRS assets to the executive director or the staff of TRS (staff).

(b) Authorizes the board of trustees, in addition to the board's authority under Subsection (a-2), to contract with private, professional investment managers, advisors, and consultants to assist and advise the board of trustees and staff in investing TRS assets.

(b-1) Provides that a professional investment manager, advisor, or consultant submits to the jurisdiction of the courts of this state in all proceedings arising from or related to performance of the delegated authority or engagement, by accepting a delegation of investment authority under Subsection (a-2) or an engagement to assist or advise the board or the staff. Requires an action relating to services rendered under this section to

be brought only in a state district sitting in Travis County, Texas. Provides that Chapter 2260 (Resolution of Certain Contract Claims Against the State), Government Code, does not apply to a contract under Subsection (a-2) or (b). Provides that this subsection does not waive any immunity of TRS.

SECTION 2. Amends Subchapter D, Chapter 825, Government Code, by adding Section 825.3011, as follows:

Sec. 825.3011. CERTAIN CONSULTATIONS CONCERNING INVESTMENTS. (a) Defines "private investment fund," "reinvestment," and "restricted securities."

(b) Provides that the board of trustees are not required under Chapter 551 (Open Meetings), Government Code, to confer with certain persons or entities in an open meeting if the only purpose of the conference is to receive information from or question certain persons regarding an investment or a potential investment by the board of trustees in a private investment fund, or the purchase, holding, or disposal of certain investments if, under Section 552.143 (Confidentiality of Certain Investment Information), Government Code, the information discussed would be confidential, and excepted from the requirements of Section 552.021 (Availability of Public Information), Government Code, if said information was included in the records of a governmental body.

(c) Provides that this section applies notwithstanding Section 825.115 (Applicability of Certain Laws), Government Code.

SECTION 3. Amends Subchapter D, Chapter 825, Government Code, by adding Section 825.3012, as follows:

Sec. 825.3012. INVESTMENT IN CERTAIN HEDGE FUNDS LIMITED. (a) Defines "hedge fund."

(b) Prohibits more than five percent of the value of the total investment portfolio of TRS from being invested in hedge funds, notwithstanding any provision of Section 825.301 (Investment of Assets).

(c) Provides that the percentage of the value described by Subsection (b) is determined by reference to the value of the total investment portfolio of TRS as of the date TRS executes the subscription documents for each hedge fund investment.

SECTION 4. Effective date: upon passage or September 1, 2007.