

- SUBJECT:** Investment authority of the Teacher Retirement System
- COMMITTEE:** Pensions and Investments — favorable, without amendment
- VOTE:** 4 ayes — Truitt, Burnam, Keffer, Macias
0 nays
3 absent — Villarreal, McClendon, Rodriguez
- WITNESSES:** For — Tim Lee, Texas Retired Teachers Association; (*Registered, but did not testify*: Sheila D. Sargent, Annie B. Scholtz
Against — None
On — Ronnie Jung, Teacher Retirement System; (*Registered, but did not testify*: Tom Rogers)
- BACKGROUND:** Government Code, sec. 825.301, authorizes the board of trustees of the Teacher Retirement System (TRS) to invest in “securities” as defined by sec. 4, the Securities Act (art. 581-4, V.T.C.S.) or certain federal regulations. The TRS board may contract with private professional investment managers to assist in investing the assets of the retirement system.

The TRS board must evaluate and analyze the investment results of those assets of the retirement system for which reliable and appropriate measurement methodology and procedures exist. This includes comparing investment results with written investment objectives developed by the board, and comparing TRS investment performance with that of other public funds.

Under Government Code, sec. 552.143, certain information prepared or provided by a private investment fund or an issuer of restricted securities and held by a governmental body is confidential and not subject to open records requirements.
- DIGEST:** HB 2376 would amend Government Code, sec. 825.301, to allow the TRS board to buy and sell any investment instrument commonly used by

institutional investors to manage institutional investment portfolios. These would include futures contracts, options, options on futures contracts, forward contracts, and swap contracts, including swap contracts with embedded options.

The bill would authorize the TRS board to delegate investment authority to the TRS executive director or TRS staff. The board could contract with private professional investment managers to invest and manage TRS assets and would have to specify any applicable policies, requirements, or restrictions, including criteria for determining the quality of investments or the use of standard rating systems. The board also could contract with financial advisors and consultants to advise the TRS board and staff. A professional investment manager, advisor, or consultant who contracted with TRS would be subject to the jurisdiction of the courts and all proceedings would be held in Travis County.

The bill would specify that the board would not be required to confer in an open meeting with employees, consultants, or legal counsel if the only purpose of the meeting were to receive information about a private investment fund or investments in restricted securities if the information would be confidential under Government Code, sec. 552.143.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

**SUPPORTERS
SAY:**

HB 2376 would give TRS the tools it needs to diversify its investment strategy and more effectively manage the assets, currently valued at about \$100 billion, of the nation's eighth-largest public pension fund. The bill would bring TRS in line with the nation's other large public pension funds by allowing the board to contract with private investment professionals and to invest in hedge funds and other more risky investments that TRS in-house investment staff may not have the expertise to manage.

The bill would help strengthen retirement security for TRS members by opening up investment opportunities that have the potential to bring significantly higher returns. These would be balanced by stocks, bonds, and other "safer" investments on which TRS traditionally has relied. Together, these investments should generate sufficient returns to ensure the long-term financial health of the pension fund.

The TRS board recently approved a change in its investment strategy to shift more than \$30 billion of its portfolio into more complex, and sometimes more speculative, investments. HB 2376 would give TRS the statutory authorization it needs to hire outside managers to oversee some of these investments and to protect the security of the pension fund.

**OPPONENTS
SAY:**

HB 2376 would risk the retirement security of 1.1 million TRS members by allowing the TRS board to hire outside investment managers and to invest in hedge funds and other speculative investments. For years, the TRS pension fund has seen solid returns by investing in stocks and bonds. These relatively safe investments generate adequate returns while not putting the savings of retired teachers and other educators at risk. TRS should continue to rely on in-house staff to manage traditional, less risky investments.

**OTHER
OPPONENTS
SAY:**

HB 2376 should limit the percentage of the TRS investment portfolio that can be invested in speculative investments and managed by outside professionals. The bill also should establish a time limit after which the TRS pension fund performance would be subject to review by the Legislature.

NOTES:

The companion bill, SB 1447 by Duncan, passed the Senate by 29-0 on April 25 and has been referred to the House Pensions and Investments Committee.