AMENDMENTS TO SENATE BILL NO. 724

Sponsor: SENATOR BROWNE

Printer's No. 894

Amend Bill, page 1, line 13, by inserting after "Board;"

in administration and miscellaneous provisions, providing for the establishment of the Public Markets Emerging Investment Manager Program;

Amend Bill, page 12, by inserting between lines 23 and 24

Section 4.1. Chapter 85 of Title 24 is amended by adding a subchapter to read:

SUBCHAPTER D

PUBLIC MARKETS EMERGING INVESTMENT MANAGER PROGRAM

§ 8541. Definitions.

The following words and phrases when used in this subchapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Program." The Public Markets Emerging Investment Manager Program established under section 8542 (relating to establishment).

§ 8542. Establishment.

(a) Fiduciary duty of board.--Consistent with the board's fiduciary responsibilities, the board shall establish a Public Markets Emerging Investment Manager Program.

(b) Location of managers.--The board shall locate fund managers with a history of generating positive risk adjusted returns.

(c) Source list.--After location of fund managers, the board shall provide a source of potential managers for the main fund.

(d) Assistance with marketing.--In order to grow public market emerging investments firms, the board shall assist in using the system's name in the manager's marketing efforts.

§ 8543. Funding.

The board shall allocate an amount of at least $250,000,000 and not more than $1,000,000,000 to the program. Funding for each investment manager shall come from assets allocated within the main fund, similar to or most closely related to the investment manager's mandate. The maximum number of investment managers in the program at any one time may not exceed 10, except that the program may be implemented and run with less than 10 investment managers.

§ 8544. Participation criteria.

In order to be considered to participate in the program, an investment manager must meet the following criteria:

(1) Be registered under the Investment Advisors Act of 1940 (54 Stat. 847, 15 U.S.C. § 80b-1 et seq.) or be exempt from the Investment Advisors Act of 1940.

(2) Have the ability to demonstrate real and contented transparency of positions and transactions.

(3) Have the ability to provide and show quarterly liquidity.

(4) A firm, portfolio manager or any combination of firm and portfolio manager must have a five year historical performance record verified by at least one consultant or accounting firm in accordance with the Global Investment Performance Standard in effect on the effective date of this section.

§ 8545. Preference.

Preference shall be given to investment managers deemed to meet the objectives, goals and required criteria contained under this subsection, plus demonstration of at least one of the following characteristics:

(1) Be an investment management firm headquartered or incorporated within this Commonwealth.

(2) Be a:

(i) veteran-owned investment management firm, with proper DD 214 verification and honorable discharge; or

(ii) service-disabled veteran-owned investment management firm with a letter from the United States Department of Veteran Affairs.

(3) Be a minority-owned or women-owned investment management firm approved by the Office of Minority and Women Business Enterprise in accordance with the criteria established by Executive Order No. 1987-18 and 4 Pa. Code § 68.204 (relating to eligibility standards).

§ 8546. Requirements and limitations of firms.

(a) Equity, commodity or absolute return exposure firms.--Firms considered to provide equity, commodity or absolute return exposure may not have more than $1,500,000,000 of total assets under management when hired. If the total assets under management exceed $3,000,000,000, the investment managers shall be terminated in a reasonable period of time.

(b) Fixed-income exposure firms.--Firms considered to provide fixed-income exposure shall have no more than

$3,000,000,000 of total assets under management when hired. If the total assets under management exceeds $6,000,000,000, existing investment managers shall be terminated within a reasonable period of time.

(c) Performance-based fee accounts.--For performance-based fee accounts, a manager must exceed both a hurdle rate and a high water mark before the manager can earn the performance-based fee.

(d) Transition to main fund.--Investment managers hired into the program may continue in the program for a period of at least three years, but not more than five years. If the investment manager generates strong risk adjusted returns, the Investment Office shall use best efforts to make a place in the main fund for the investment manager. The Investment Office shall consider things such as the investment manager's assets under management and projected ability to continue generating strong risk adjusted returns in the future.

§ 8547. Administration.

(a) Authority to hire.--The board and the Investment Office may hire and fund any investment manager meeting the objectives, goals and criteria under this section.

(b) Prohibition of investment.--An investment may not be made into an investment vehicle that primarily includes private equity, private debt, venture capital or private real estate instruments. An investment in an absolute return strategy shall be subject to manager selection requirements within the absolute return policy.

(c) Emerging manager portfolio manager.--The Investment Office shall appoint an Emerging Manager Portfolio Manager who shall be responsible for administering the program. The Emerging Manager Portfolio Manager shall meet with managers that appear to meet the objectives, goals and criteria of this section. The Emerging Manager Portfolio Manager shall recommend qualified investment managers for inclusion into the main fund and shall further advise the Investment Office if termination of an investment manager is recommended. An investment manager may be terminated by the Emerging Manager Portfolio Manager, with approval from the Investment Office, if the investment manager is underperforming, not generating strong risk adjusted returns, not meeting the criteria to move into the main fund, changes investment processes, has personnel turnover or any other reason which is deemed by the Investment Office to be in the best interests of the system.

(d) Internal Review Committee.--An investment manager considered for hiring into the program shall meet with the Internal Review Committee. The Internal Review Committee shall review each manager considered for inclusion in the program and provide feedback to the Emerging Manager Portfolio Manager. Investment Office approval shall be required to hire a manager into the program, including the Emerging Manager Portfolio Manager, the Emerging Manager Portfolio Manager's supervisor and the Chief Investment Officer.

(e) Approval for exceptional investment manager.--If the Emerging Manager Portfolio Manager, the Chief Investment Officer or other qualified staff have located an exceptional investment manager that does not meet the required criteria established under this section, the Investment Office shall obtain board approval for hiring. The Investment Office shall present to the board the specific reasons for hiring the investment manager.

(f) Contract requirements.--Each investment manager shall manage its portfolio within the constraints of the contract entered into between the investment manager and the board, the Investment Policy Statement, Objectives and Guidelines, any applicable addendum and any applicable amendments to the contract and Investment Policy Statement, Objectives and Guidelines. The Investment Office and board shall have authority to negotiate the investment contract with the investment manager, including the investment guidelines.

(g) Insurance.--Each of the standard insurance provisions in the Investment Policy Statement, Objectives and Guidelines, except for the maximum deductibles, shall apply to the investment manager until the investment manager is either managing over $100,000,000 for the program or is moved out of the program into the main fund. The maximum deductible for both the error and omissions insurance and the fidelity bond shall be the greater of 10% of audited retained earnings or the following:

Asset Size	Maximum Deductible
$0 - $50,000,000	$50,000
$50,000,000 - $75,000,000	$100,000
$75,000,000 - $100,000,000	$200,000

(h) Funding.--Board approval shall be required for total capital allocations exceeding $100,000,000. Investment strategy limitations shall be consistent with Investment Policy Statement constraints. The Emerging Manager Portfolio Manager, the Emerging Manager Portfolio Manager's supervisor and the Chief Investment Officer shall determine the amount of the initial allocation and each subsequent allocation to each investment manager.