

AMENDMENTS TO SENATE BILL NO. 724

Sponsor: SENATOR BROWNE

Printer's No. 894

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

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

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

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

8 SUBCHAPTER D

9 PUBLIC MARKETS EMERGING INVESTMENT MANAGER PROGRAM

10 Sec.

11 8541. Definitions.

12 8542. Establishment.

13 8543. Funding.

14 8544. Participation criteria.

15 8545. Preference.

16 8546. Requirements and limitations of firms.

17 8547. Administration.

18 § 8541. Definitions.

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

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

25 § 8542. Establishment.

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

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

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

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

37 § 8543. Funding.

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

9 § 8544. Participation criteria.

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

12 (1) Be registered under the Investment Advisors Act of
13 1940 (54 Stat. 847, 15 U.S.C. § 80b-1 et seq.) or be exempt
14 from the Investment Advisors Act of 1940.

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

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

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

25 § 8545. Preference.

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

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

32 (2) Be a:

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

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

38 (3) Be a minority-owned or women-owned investment
39 management firm approved by the Office of Minority and Women
40 Business Enterprise in accordance with the criteria
41 established by Executive Order No. 1987-18 and 4 Pa. Code §
42 68.204 (relating to eligibility standards).

43 § 8546. Requirements and limitations of firms.

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

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

1 \$3,000,000,000 of total assets under management when hired. If
2 the total assets under management exceeds \$6,000,000,000,
3 existing investment managers shall be terminated within a
4 reasonable period of time.

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

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

18 § 8547. Administration.

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

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

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

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

1 the Chief Investment Officer.

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

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

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

<u>Asset Size</u>	<u>Maximum Deductible</u>
<u>\$0 - \$50,000,000</u>	<u>\$50,000</u>
<u>\$50,000,000 - \$75,000,000</u>	<u>\$100,000</u>
<u>\$75,000,000 - \$100,000,000</u>	<u>\$200,000</u>

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