

SUBJECT: Continuing certain investment authority for TRS

COMMITTEE: Pensions, Investments, and Financial Services — committee substitute recommended

VOTE: 9 ayes — Truitt, Anchia, C. Anderson, Creighton, Hernandez Luna, Legler, Nash, Orr, Veasey
0 nays

WITNESSES: For — Tim Lee, Texas Retired Teachers Association
Against — None
On — Ronnie Jung, Teacher Retirement System; Ted Melina Raab, Texas American Federation of Teachers

BACKGROUND: Government Code, sec. 825.301 authorizes the board of trustees of the Teacher Retirement System (TRS) to buy and sell futures contracts, options, options on futures contracts, forward contracts, and swap contracts, including swap contracts with embedded options to manage and reduce the risk of the overall investment portfolio.

The board of trustees is permitted to contract with one or more private professional investment managers for investment and management of no more than 30 percent of the retirement system's total assets.

The investment and contracting authority will expire on September 1, 2012.

DIGEST: CSHB 1061 would continue the investment and contracting authority afforded to the Teacher Retirement System in sec. 825.301, Government Code, until September 1, 2019.

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, 2011.

SUPPORTERS
SAY:

CShB 1061 would continue to allow TRS to buy and sell any investment instrument commonly used by institutional investors to manage institutional investment portfolios. The ability to diversify investments minimizes the portfolio's exposure to risk and helps insulate the retirement fund from market downturns. The investment authority already has shielded the fund from additional loss due to the recent market downturn. TRS is known as the best-performing pension of its kind.

The continued ability to contract with investment managers would permit the fund to continue to evaluate new opportunities. Fund managers are able to exercise due diligence on behalf of the fund by investigating opportunities outside of the United States because they are able to travel, whereas board members usually cannot investigate these options.

The bill would extend the authority of TRS to perform these functions for seven years, which would permit the Legislature to continue to monitor the use of these tools.

OPPONENTS
SAY:

CShB 1061 should include a provision to require TRS to report annually to the Legislature on its use of this authority.

It is not necessary to extend the expiration date. Since TRS undergoes the Sunset process every 12 years, these provisions would be included in the Sunset Advisory Commission's examination of the agency,

NOTES:

The committee substitute added an expiration date for the investment and contracting authority. The original version of the bill would have eliminated the expiration date.

The companion bill, SB 1665 by Duncan was referred to the Senate State Affairs Committee on March 23.