

BILL ANALYSIS

H.B. 738
By: Otto
Pensions, Investments & Financial Services
Committee Report (Unamended)

BACKGROUND AND PURPOSE

The Teacher Retirement System of Texas (TRS) is one of the largest public pension plans in the United States and has more than \$100 billion in assets in a diversified portfolio. TRS invests a small percentage of those assets in hedge funds to reduce the downside risk to the portfolio. Several years ago, the Texas Legislature enacted legislation placing a cap of five percent on the amount of the TRS portfolio that could be invested in hedge funds, a reduction from the previous cap of 10 percent, which had been set by the TRS board of trustees.

The State Auditor's Office recently released a report on TRS investments in which the state auditor concluded that TRS's external manager program, its use of derivatives, and its hedge fund portfolio are managed with apparent due professional care by TRS's investment management division. The state auditor's conclusion supports the case for continuing these programs as considered appropriate by the TRS board of trustees in consultation with the staff of the investment management division and with the board's external investment consultants. Under the current investment management structure, including the current risk management policies and procedures, it appears that the interests of TRS members and beneficiaries are well served by these programs, which constitute a portion of the total fund.

H.B. 738 increases the amount of the TRS portfolio that can be invested in hedge funds from five percent to 10 percent.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

H.B. 738 amends the Government Code to increase the amount of Teacher Retirement System of Texas assets that may be invested in hedge funds by raising the cap on such investments from five percent to 10 percent of the value of the system's total investment portfolio.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2011.