

Department of Legislative Services  
 Maryland General Assembly  
 2012 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 916  
 Appropriations

(Delegate Braveboy)

Budget and Taxation

State Retirement and Pension System - Study of Asset Management

This bill requires the Governor’s Office of Minority Affairs (GOMA) to conduct a study of the funds managed by the State Retirement and Pension System (SRPS) to determine (1) SRPS’ capacity to select minority fund managers across all asset classes; and (2) methods that assure the recruitment and selection of minority companies for fund-to-fund management or direct management of assets. In making these determinations, the study must consider the State Retirement Agency’s fiduciary responsibilities. GOMA must report its findings to the Governor, the SRPS Board of Trustees, and the General Assembly by December 1, 2012.

The bill takes effect July 1, 2012, and terminates June 30, 2013.

Fiscal Summary

**State Effect:** General fund expenditures by GOMA increase by \$40,000 in FY 2013 to hire a consultant to conduct the mandated study.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	40,000	0	0	0	0
Net Effect	(\$40,000)	\$0	\$0	\$0	\$0

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** Chapters 600 and 601 of 2008 require SRPS (and three other State entities) to attempt to use minority business enterprises (MBEs) to the greatest extent feasible to provide brokerage and investment management services. The four entities' use of MBEs must be consistent with MBE purchasing standards in current law and with their respective fiduciary responsibilities. The law also requires the four entities to submit annual reports to GOMA and the General Assembly on their use of MBE brokerage and investment firms and their efforts to encourage greater use of MBE firms. Those efforts must include the use of a wide variety of media, including their websites, to publicize the brokerage and investment management services they use.

### *Minority Business Enterprise Program*

The State's MBE program establishes a goal that at least 25% of the total dollar value of each agency's procurement contracts be awarded to MBEs; long-standing subgoals of 7% for African American-owned businesses and 10% for woman-owned businesses were repealed by Chapters 252 and 253 of 2011. Instead, Chapters 252 and 253 authorize GOMA, in consultation with the Maryland Department of Transportation (MDOT) and the Office of the Attorney General, to establish guidelines for each unit to consider while determining whether to set subgoals for individual procurements based on existing categories for minority groups. There are no penalties for agencies that fail to reach the 25% target. Instead, agencies are required to use race-neutral strategies to encourage greater MBE participation in State procurements.

The MBE program is scheduled to terminate July 1, 2012.

### **Background:**

#### *Terra Maria Program*

In September 2008, SRPS expanded and restructured its Emerging Manager program, renaming it the Terra Maria program. The program is designed to increase the number of new and small asset management companies, many of which are women- and minority-owned.

The Terra Maria program has grown significantly since its redesign. Assets devoted to the program grew from almost \$2.5 billion in fiscal 2010 to almost \$3.3 billion in fiscal 2011. It is also growing relative to the total fund, from 7.7% of total assets in fiscal 2010 to 8.8% in fiscal 2011. **Exhibit 1** provides an overview of the Terra Maria program by program manager and asset class. Since the program's inception,

performance has far exceeded the program's weighted composite index, with total returns exceeding the benchmark by 242 basis points.

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**Exhibit 1**  
**Terra Maria Program Overview**  
**June 30, 2011**  
**(\$ in Millions)**

<b><u>Program Manager</u></b>	<b><u>Total Assets Managed</u></b>	<b><u>Benchmark (Since Inception)</u></b>	<b><u>Actual (Since Inception)</u></b>
Attucks	\$411.9	23.83%	25.00%
Bivium	334.4	23.73%	23.56%
Capital Prospects	411.6	26.42%	28.27%
FIS Group	366.2	22.50%	24.22%
Leading Edge	361.7	25.46%	28.19%
Northern Trust	698.0	1.09%	3.04%
Progress	714.8	19.72%	19.33%
<b>Total</b>	<b>\$3,298.6</b>	<b>1.59%</b>	<b>4.01%</b>

**Asset Class**

U.S. Equity	\$1,547.4	3.01%	5.19%
International Equity	809.6	-2.62%	-0.24%
Global Equity	264.5	19.36%	19.33%
Fixed Income	451.0	14.71%	11.78%
Credit Opportunity	197.4	12.97%	12.36%
Real Return	28.7	n/a	n/a
<b>Total</b>	<b>\$3,298.6</b>		

Note: Actual returns are net of fees.

Source: State Retirement Agency

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Based on the reporting requirements enacted by Chapters 600 and 601, GOMA issues annual reports on the extent to which the four entities use MBE investment managers and brokers. **Exhibit 2** shows results for fiscal 2010, the most recent data available from GOMA.

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**Exhibit 2**  
**Use of MBE Investment Management and Brokerage Services**  
**Fiscal 2010**  
**(\$ in Millions)**

	<b>Investment Management</b>			<b>Brokerage Services</b>		
	<u>Total Assets</u>	<u>MBE Assets</u>	<u>%</u>	<u>Total</u>	<u>MBE</u>	<u>%</u>
SRPS	\$31,840.9	\$2,905.4	9.1%	\$14.0	\$1.6	11.4%

Source: Governor's Office of Minority Affairs

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**State Fiscal Effect:** GOMA has no particular expertise in investment theory or practice, or in assessing the availability of minority-owned investment management firms. Investment management is not one of the employer categories included in the periodic disparity study conducted by MDOT to assess the availability of minority-owned businesses in the State, so a separate study would need to be conducted. Therefore, general fund expenditures by GOMA increase by an estimated \$40,000 in fiscal 2013 to hire a consultant to conduct the mandated study within the five-month timeframe required by the bill.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 779 (Senator Pugh) - Budget and Taxation.

**Information Source(s):** Governor's Office, Maryland State Retirement Agency, Department of Legislative Services

**Fiscal Note History:** First Reader - March 7, 2012  
mlm/rhh Revised - Correction - April 2, 2012  
Revised - Enrolled Bill - May 22, 2012

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