Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 845 (Delegate Feldman, *et al.*)
Appropriations

State Retirement and Pension System - Investments - Qualified Information Technology, Green Technology, Medical Device Technology, or Bioscience Businesses

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This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS) to invest $50.0 million over five years in venture capital funds that focus on State-based information technology (IT), green technology, medical device technology, or bioscience businesses. The board must report annually to designated committees of the General Assembly on the funds it has invested in and the State-based companies that have received funding, and make recommendations to improve the methodology by which the board invests in venture capital funds in the designated fields.

The bill takes effect July 1, 2010, and terminates June 30, 2015.

Fiscal Summary

State Effect: The nature and magnitude of the effect of the investment mandate on SRPS investment returns cannot be predicted but is expected to be minimal. Therefore, no discernible effect on State pension liabilities and contribution rates.

Local Effect: None.

Small Business Effect: Potential meaningful for small start-up firms engaged in IT, green technology, medical device technology, or bioscience.

Analysis

Bill Summary: Qualified companies must be primarily engaged in:

- manufacturing, processing, or assembling products in the four designated fields;
- conducting research and development in the four designated fields; or
- providing services related to the four designated fields.

They do not include companies primarily engaged in retail sales, real estate development, insurance, banking, lending, or the provision of professional services.

An SRPS investment in an eligible venture capital fund may not exceed 10% of that fund's total funding.

A State-based company is one that:

- is headquartered and has its principal business operations in the State and intends to remain in the State, or is headquartered outside the State and intends to relocate its headquarters and principal business operations to the State; and
- has agreed to use the investment to establish and/or support business operations in the State and either employs at least 80% of its employees in the State or pays at least 80% of its payroll to employees in the State.

Current Law: The Maryland State Retirement Agency (SRA), under the supervision of the board, manages SRPS assets, which exceed $30 billion. Except as described below, as fiduciaries for the system, the board is solely responsible for establishing the conditions under which SRA invests the assets, which it publishes in an investment policy manual. The system's chief investment officer is responsible for implementing the board's asset allocation through the selection and dismissal of external investment managers.

The board is subject to several statutory restrictions on its investments, most notably a fee cap of 0.5% for real estate and alternative assets, and a divestment policy with respect to companies that do business in Iran or Sudan. However, there are no statutorily mandated investments such as those proposed by this bill.

Background: Chapter 222 of 1990 created the Maryland Venture Capital Trust and required SRPS to contribute $15 million to the fund; two Baltimore City pension funds were also required to contribute. By 1992, the trust had invested its full $19.1 million commitment in eight venture capital partnerships.

The Board of Trustees approved significant changes to the system's strategic asset allocation in January 2008 and again in September 2008. **Exhibit 1** details the changes in asset allocation targets as a result of the board's actions. The 2008 strategic targets shown in the exhibit reflect the changes adopted in January 2008, and the 2009 strategic targets reflect the additional changes made in September 2008.

Exhibit 1
State Retirement and Pension System of Maryland Asset Allocation
Fiscal 2008-2009

	6/30/2009 Strategic Target	6/30/2009 Transition Target	6/30/2009 Actual	6/30/2008 Strategic Target	6/30/2008 Actual
Equity					
Domestic Stocks			25.5%	27%	34.9%
International Stocks			22.7%	16%	15.3%
Global Equity			8.0%	14%	10.5%
Total Public Equity	**37.0%**	**54.6%**	**56.2%**	**57.0%**	**60.7%**
Private Equity	15.0%	3.4%	3.4%	5%	1.7%
Real Estate	10.0%	6.1%	6.1%	10%	6.1%
Fixed Income	15.0%	24.5%	18.3%	17%	24.4%
Real Return Strategies	10.0%	4.4%	4.4%	5%	4.2%
Absolute Return	10.0%	2.6%	2.6%	5%	2.2%
Credit Opportunity	1.4%	1.4%	1.4%		
Cash and Other	3.0%	3.0%	7.5%		
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: Columns may not add to total due to rounding.
Source: Maryland State Retirement Agency

The changes approved in September 2008 continue the board's move away from traditional classes, such as domestic equity and fixed income, in favor of alternative asset classes, such as private equity, real estate, and absolute return.

State Fiscal Effect: The effect of the bill's mandate on SRPS investment returns cannot be predicted. As noted above, the system has adopted changes to its asset allocation that require it to increase its contributions to alternative asset classes, which can include venture capital funds. In that regard, the mandate is consistent with the board's investment approach. However, to the extent that the mandate restricts the board's ability to invest in other promising investment opportunities that arise over the same time period covered by the bill, the mandate may affect the system's investment performance. The mandated commitment of $50.0 million over five years (roughly 0.15% of the fund's assets) is sufficiently small that any net effect, positive or negative, is likely to be minimal.

Additional Information

Prior Introductions: SB 1018 of 2009 was introduced but did not receive a hearing.

Cross File: SB 793 (Senator Garagiola, *et al.*) - Budget and Taxation.

Information Source(s): Department of Legislative Services

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