



Investment Committee

Item Number 6 – Open Session

Subject: Investment Procurement Policy

Presenter(s): Shifat Hasan and Steven Tong

Item Type: Information

Date & Time: November 3, 2022 – 10 minutes

Attachment(s): Attachment 1 – Investment Procurement Policy

Attachment 2 – AB 539

Attachment 3 – Meketa Concurrence Memo

PowerPoint(s): Investment Procurement Policy Presentation

Item Purpose

The purpose of this item is to present the first read of a new Investment Procurement Policy under the recently passed Assembly Bill 539, which allows for the establishment of a competitive procurement process for contracting with qualified investment managers and advisers.

Recommendation

Staff recommends that the Investment Committee (IC) review this policy (Attachment 1), and if there are no suggestions or changes, staff recommends that the IC take action and approve this policy effective January 1, 2023.

Executive Summary

California Education Code section 22352 - AB 539 (Attachment 2), approved October 2021, allows the California State Teachers' Retirement Board to adopt an Investment Procurement Policy, which establishes the framework for a competitive and prudent procurement process, while still upholding the governing principles of the state's contracting process. Staff will modify current procedures, processes, and controls, while maintaining prudence, care, diligence, and flexibility in procuring investment managers and advisers independent from the state's generalized solicitation and procurement processes.

The proposed policy supports an enhanced investment procurement process that was developed as a collaborative initiative involving representatives from the Executive Branch, Investment Branch, General Counsel Branch, Public Affairs Branch, Administrative Services Branch, and the Technology Services Branch, as part of the Collaborative Model's Procurement Pillar, led by the Continuous Improvement Team since October 2019. As part of the Procurement Pillar objective, the CalSTRS procurement team was able to streamline a 14-16 month procurement process and reduce the overall time by half. This policy will further streamline and enhance the evaluation and selection of investment vendors, shortening that time to less than three months. These combined improvements will enable CalSTRS to realize the objectives of the Procurement Pillar, as well as maintain a fair and competitive procurement process for investment vendors. The proposed investment policy outlines six competitive elements that staff will implement through the following activities:

- CalSTRS.com will contain a continuous announcement web posting inviting all interested investment managers and advisers to register company information for consideration to future investment opportunities.
- Prospective investment manager and adviser information will be stored within a database for staff to review, evaluate, and select vendors as appropriate.
- Internal guidelines, procedures, and control documents will be developed outlining procedural and operational details for screening, evaluating, and selecting investment vendors. Governance documents for this process will be managed and maintained by the Investment Services unit.
- Final selection of any manager and adviser for an investment opportunity will be posted on CalSTRS.com.

This new policy will provide staff with a more efficient alternative to the state's generalized Request for Proposal (RFP) and Alternative Solicitation Process (ASP) when selecting and evaluating investment managers and advisers, Contract negotiation and execution processes shall remain unchanged, following general state procedures, however there are opportunities to further streamline these processes in the future.

Background

The diagram presented below represent the governance structure for the new investment procurement policy and process. This policy will be subject to audit and compliance oversight, in conjunction with all Investment policies.

Governance Structure

<u>Laws</u>	<u>Board Policy</u>	<u>Guidelines</u>	<u>Procedures</u>
➤ California Education Code 22352 (AB 539)	➤ Investment Procurement Policy	➤ Investment Procurement Guidelines	➤ Investment Procurement Procedure Manual ➤ Internal Controls

The list below represents the summary of benefits provided to CalSTRS with the adoption of this policy.

Benefits of Investment Procurement Policy

- Broadens the universe of business partners
 - Attracts top-performing managers/advisers who may be discouraged by cumbersome RFP processes
 - Attracts small/emerging companies who may not otherwise have resources to participate in an RFP process
- Expedient response to market opportunities
 - Ability for CalSTRS to react quickly and timely to changes in the investment marketplace
 - Reduced opportunity costs from implementing investment strategies
- Efficiencies
 - Empowers CalSTRS to mitigate risks and be agile in contracting with managers/advisers with less overhead
 - Streamlined approach to the overall investment procurement process, allowing CalSTRS to be seen as a partner of choice

Strategic Plan Linkage: [Goal 1 of the strategic plan](#). Trusted stewards – Ensuring a well-governed, financially sound trust fund.

Board Policy Linkage: [CalSTRS Investment Policy and Management Plan](#)

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Optional Reference Material: *(e.g., prior board items, supplemental educational materials, etc.)*

- https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB539
- <https://www.calstrs.com/files/9b70aeea5/ab539-introduced-2-10-21.pdf>