

BILL NUMBER: [SB 1319 \(Durazo\)](#) as amended April 15, 2026

SUMMARY

SB 1319 requires public investment funds to disclose, upon request, additional information related to alternative investments by expanding the information not considered to be a trade secret exempt from disclosure under the California Public Records Act. In addition, this bill requires the annual reporting of specified information related to alternative investments through a cross reference in another Government Code section.

RECOMMENDATION

Oppose. The board's policy is to oppose legislation that restricts the plenary authority of the board to administer the retirement plans as provided in Section 17 of Article XVI of the California State Constitution and that restricts the investment authority of the board or is inconsistent with the investment policy adopted by the board. It is also the board's policy to oppose legislation that conflicts with CalSTRS' strategic directions or policies established by the board.

REASON FOR THE BILL

According to the author, key information about alternative investments is missing, and decision-makers cannot easily determine whether these investments outperform public markets or how they affect workers.

ANALYSIS

Existing Law:

Under the provisions of Section 17 of Article XVI of the California Constitution, as amended by Proposition 162 of 1992, the CalSTRS board has plenary authority and fiduciary responsibility over the investment of retirement plan assets and is required to discharge its duties solely in the interests of its members and beneficiaries for the exclusive purpose of providing benefits. The board must invest the assets of the plan with the care, skill and diligence of a prudent person engaged in a similar enterprise and must diversify the investments of the system to maximize the investment gains and minimize the risk of loss.

Under the Public Records Act, Government Code section 7928.710 delineates which records and information regarding alternative investments in which public investment funds invest are and are not subject to disclosure. Records not subject to disclosure consist of:

- Due diligence materials that are proprietary to the public investment fund or the alternative investment vehicle.
- Quarterly and annual financial statements of alternative investment vehicles.
- Meeting materials of alternative investment vehicles.
- Records containing information regarding the portfolio positions in which alternative investment funds invest.
- Capital call and distribution notices.
- Alternative investment agreements and all related documents.

Information subject to disclosure and not considered a trade secret exempt from disclosure includes:

- The name, address and vintage year of each alternative investment vehicle.
- The dollar amount of the commitment made to each alternative investment vehicle by the public investment fund since inception.
- The dollar amount of cash contributions made by the public investment fund to each alternative investment vehicle since inception.
- The dollar amount, on a fiscal year-end basis, of cash distributions received by the public investment fund from each alternative investment vehicle.
- The dollar amount, on a fiscal year-end basis, of cash distributions received by the public investment fund plus remaining value of partnership assets attributable to the public investment fund's investment in each alternative investment vehicle.
- The net internal rate of return of each alternative investment vehicle since inception.
- The investment multiple of each alternative investment vehicle since inception.
- The dollar amount of the total management fees and costs paid on an annual fiscal year-end basis, by the public investment fund to each alternative investment vehicle.
- The dollar amount of cash profit received by public investment funds from each alternative investment vehicle on a fiscal year-end basis.

Separately, Government Code section 7514.7 compels every public investment fund to require their alternative investment vehicle fund managers and related parties to make specified disclosures regarding fees and expenses for each alternative investment vehicle, including the disclosures described above under the Public Records Act. This information must be disclosed at least once annually in a report presented at a meeting open to the public.

This Bill:

- Provides that records containing information regarding the portfolio positions in which alternative investment funds invest are exempt from Public Records Act, except as provided in the disclosure requirements.
- Requires additional disclosure of:
 - The name of each general partner or manager of the alternative investment vehicle and of each person with a direct or indirect interest in the general partner or manager.
 - The total amount of commitments made by all investors to the alternative investment vehicle.
 - The total amount of cash contributions made by all investors to the alternative investment vehicle.
 - A comparison of the results from the alternative investment vehicle against the performance the public investment fund would have experienced from investing the same amount in a public market index of corresponding assets traded in the public securities markets, after controlling for risk, liquidity and expense. The index must be chosen at the time the public investment fund commits to the alternative investment vehicle.
 - For each alternative investment vehicle that remains active beyond the end of its originally stated term, the basis for continued operation, the current value of assets of the alternative investment vehicle and the amount of any management fees, carried interest or other expenses continuing to be charged to the fund on an annual fiscal year-end basis.
 - Any continuation fund, asset rollover or transfer, or similar transaction involving assets previously held by the alternative investment vehicle, including the financial terms of any such continuation fund or transaction, management fees, and the valuations of the assets involved in the transaction.

- For an alternative investment vehicle that has an objective of creating, acquiring or developing an enterprise or activity in which natural persons are engaged to perform work, the identity of the enterprise or activity, the locations where the enterprise or activity takes place, and the number and classifications of employees at each location, using the United States Bureau of Labor Statistics' 2018 Standard Occupational Classification system.
- For alternative investment vehicles with debt investments, the number and aggregate dollar value of loans valued by the alternative investment vehicle at less than 75% of face value if originated by the alternative investment vehicle, or less than 75% of cost to the alternative investment vehicle if purchased, and a list of third-party rating agencies hired by the alternative investment vehicle to assign ratings to the loans.

Discussion

CalSTRS has been exempted from publicly disclosing specified information related to trade secrets in alternative investments for two decades. As stated in the Legislature's findings and declarations, SB 439 (Simitian, Chapter 258, Statutes of 2005) was intended to protect public pension funds and public endowments from being excluded from alternative investments as a result of litigation requiring public disclosure of information about alternative investments. SB 439 allowed CalSTRS to participate in this market and access the returns provided by alternative investments. SB 1319 weakens those exemptions, places CalSTRS in an uneven playing field when competing against other allocators of capital, and recreates the core issue SB 439 intended to resolve.

To maintain a financially sound investment portfolio, CalSTRS diversifies its investments among various asset classes, including both publicly and privately traded assets. Publicly traded investments are more accessible (including to the general public), and ownership is a matter of public record through registries established for such transactions (e.g., stock exchange records). Privately traded investments are not as accessible by their very nature and are subject to confidentiality agreements to protect specific investment strategies. Such strategies are considered trade secrets and proprietary information, and their release would damage and harm a partnership's ability to be competitive in their respective markets. By requiring disclosure of this information, SB 1319 erodes the fundamental reason alternative investments exist, which is to capture returns from private, informationally advantaged markets. Placing such requirements on potential partners is likely to significantly reduce CalSTRS' ability to participate in these markets.

CalSTRS' Private Equity asset class, the highest performing asset class across the past five-, 10- and 20-year periods, is expected to be the most heavily impacted by SB 1319 and consequently faces the most uncertainty. The Private Equity program at CalSTRS is benchmarked against a public market index, which provides context to how the program is performing relative to publicly traded assets¹, a key issue this bill seeks to address.

As a result of AB 2833 (Cooley, Chapter 361, Statutes of 2016), which added Government Code section 7514.7, this bill also requires CalSTRS seek out new information retroactively and report it annually, which would breach confidentiality terms required by private market partners in already-negotiated agreements, exposing CalSTRS to legal, compliance and operational risks. Disclosure of confidential information would require staff to reconcile this bill's disclosure

¹ The longer-term Private Equity benchmark is based on a public market index plus a spread (MSCI ACWI IMI plus 1.5%). Because private equity investments are generally less liquid and more expensive to manage relative to publicly traded investments, a premium rate-of-return is expected.

obligation with confidentiality terms. It could also prompt general partners and limited partners to bring litigation against CalSTRS or to provide the system with incomplete data to avoid risk of downstream disclosure, thereby degrading CalSTRS' oversight.

The loss of these opportunities could result in the reduction of long-term returns and the inability to appropriately diversify the portfolio. This may not only create potential issues with fiduciary obligations but could have long-term repercussions on the fund that may affect the funded status and future contribution rates.

In addition, CalSTRS' competitive standing as a participant in the alternative investment markets could be impaired at the same time as additional retirement accounts could enter the market. The U.S. Department of Labor (DOL) is considering a rule to provide managers of defined contribution plans with additional tools to assess alternative investments and guidance on how to meet fiduciary duties under the Employee Retirement Income Security Act when choosing a retirement plan's investment roster. DOL stated their proposed rule would increase the number of retirement investment options for 90 million Americans, and defined contribution plans collectively contain over \$30 trillion in assets. This is an entirely new pool of capital that will potentially be competing for alternative investment opportunities against existing investors like CalSTRS.

The legal structures and practices protecting trade secrets currently apply universally. Placing the requirements of SB 1319 on California's public investment funds assumes it will introduce a new disclosure standard to the entire alternative investment market, including the creation of unavailable information. This assumption ignores the availability of capital that general partners can access without these disclosure requirements from other pensions, endowments, sovereign wealth funds and defined contribution managers. Rather than achieving its intended goal, this bill, as has previously occurred, would deny or at the very least considerably complicate CalSTRS' access to alternative investments, limiting the investable universe and our ability to diversify consistent with California's constitution.

PROGRAM BACKGROUND

CalSTRS Investment Policy Statement

The [Investment Policy Statement](#) serves as the framework in the planning and implementation of the CalSTRS investment program. This document sets forth the investment philosophy of the Investment Committee and provides the foundation for governance, decisions, objectives and risks associated with managing the portfolio. The investment objectives outline the minimization of costs, including management fees, trading costs and other expenses, as a basis for the operation of the fund. CalSTRS staff strives to operate the plan in the most efficient manner and diligently monitor costs. As such, investment costs have been reported for nearly two decades.

Annual Investment Cost Report

The [Annual Investment Cost Report](#) provides a comprehensive view into the investment costs across all asset classes and investment strategies. The report is aligned with the Investment Beliefs and dedicated to greater fee transparency. It helps staff monitor and measure costs at a more granular level for each investment made within the total investment portfolio. In addition, it provides estimated fee savings from the CalSTRS Collaborative Model.

CalSTRS Collaborative Model

The CalSTRS Collaborative Model is an investment strategy to manage more assets internally to reduce costs, control risks and increase expected returns and leverage our external partnerships to achieve similar benefits. The Collaborative Model depends heavily on CalSTRS' ability to establish and maintain strategic relationships with high performing managers, which creates opportunities to invest in deals that contain lower fee structures and favorable financial terms. The implementation of the Collaborative Model has resulted in savings since its inception, as it detailed in the "Fiscal Impact" section below.

AB 2833 Report

Government Code section 7514.7, as added by AB 2833, requires additional public disclosure about investments by California public pension plans. The intent behind this statute was to increase transparency into the fees and expenses those pension plans incur with respect to their alternative investments. Reporting that shows investment performance of individual investment vehicles, net of fees, is also required. The board took a position of support, if amended to ensure disclosure is consistent with the board's fiduciary responsibilities and to apply only to new contracts entered into on or after January 1, 2017. Since the law's enactment, CalSTRS has publicly reported the required information with the assistance of consultants. The [AB 2833 Report](#) is available on CalSTRS' website.

FISCAL IMPACT

Program Cost – Significant unquantifiable opportunity costs to the system anticipated when general partners decline to select CalSTRS as an investment partner, as well as when the system is hindered from negotiating favorable fees and terms. In addition, being at a competitive disadvantage and missing out on these partnerships could also undermine the Collaborative Model, which has saved CalSTRS an average of \$323 million annually with more than \$2.59 billion saved since 2017. These opportunity costs and losses resulting from requirements misaligned with market practices place the CalSTRS Funding Plan at risk.

Consequently, it is estimated that there would be a 0.5% reduction in CalSTRS' long-term expected investment earnings. Staff would then recommend that the board reduce the investment return assumption by 0.5%. With that, our funded status would go down by about 4.5%, while our unfunded actuarial obligation (UAO) would increase by about \$23.5 billion.

Consistent with the CalSTRS Funding Plan, most of the increase in the UAO would be borne by the state and would result in the state having to contribute on average about 6% more of payroll annually through 2046. For fiscal year 2026-27, the state is contributing to CalSTRS based on total creditable compensation of approximately \$44.8 billion. A 6% increase in the contribution rate would result in state contributions of at least \$2.6 billion more per year.

The reduced investment return assumption would also result in a 1.5% increase in the contribution rate for CalSTRS 2% at 62 members. These members currently represent about 46% of CalSTRS active members and earned, in total, approximately \$14.9 billion in 2024-25. An increase of 1.5% to their contribution rate would be about \$224 million annually, or about \$1,000 per year per CalSTRS 2% at 62 member.

Administrative Costs/Savings – Estimated administrative costs in excess of \$384,000 annually resulting from additional procurement, data collection and validation, legal services, and ongoing compliance. Possibly significant difficult-to-quantify transaction costs associated with potentially liquidating assets in the secondary market.

SUPPORT

Unite Here Local 11 (co-sponsor)
United Food and Commercial Workers Union, Western States Council (co-sponsor)
Alliance of Californians for Community Empowerment (ACCE) Action
Americans for Financial Reform
California Federation of Labor Unions, AFL-CIO
Retired Public Employees Association
State Treasurer Fiona Ma
UAW Region 6
Unite Here International Union

OPPOSITION

California State Association of Counties
Rural County Representatives of California
State Association of County Retirement Systems
Urban Counties of California

ARGUMENTS

- Pro: Attempts to improve transparency around alternative investments.
- Con: Undermines the intent of existing law to provide public pensions and endowments with the opportunity to participate in alternative investments through disclosure exemptions.
- May lower investment returns due to CalSTRS' inability to invest with alternative investment partners that refuse to agree to disclosure requirements.
- Potentially reduces the fund's constitutionally mandated diversification, by complicating our access to one of our highest performing asset classes.
- Increases operational, compliance and legal risks by requiring additional reporting of alternative investment vehicle trade secrets.
- Potentially diminishes the Collaborative Model and its associated savings.