

MEMORANDUM

January 13, 2012

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney 

SUBJECT: **Introduction:** Bill 2-12, Personnel – Retirement Trust Funds – Emerging Investment Managers

Bill 2-12, Personnel – Retirement Trust Funds – Emerging Investment Managers, sponsored by the Council President at the request of the County Executive, is scheduled to be introduced on January 17, 2012. A public hearing is tentatively scheduled for February 14 at 1:30 p.m.

Bill 2-12 would require the Board of Investment Trustees and the Consolidated Retiree Health Benefits Trust Board of Trustees to make a good faith effort, consistent with their fiduciary duties, to hire qualified emerging investment managers. The Board of Investment Trustees is responsible for managing the assets in the Employees Retirement Trust Fund. The Consolidated Retiree Health Benefits Trust Board of Trustees is responsible for managing the assets in the Consolidated Retiree Health Benefits Trust Fund. Both Boards regularly hire professional investment managers to fulfill this responsibility.

An “emerging investment manager” means an investment manager with assets or product assets below the 75th percentile of their respective peer group or a new or developing investment manager. The Bill would require each Board to adopt guidelines to identify and evaluate qualified emerging investment managers. Each Board would also be required to report annually to the Council and the Executive on or before September 1 for the prior fiscal year. The report must:

- (1) identify each emerging investment manager used during the fiscal year;
- (2) list the percentage and dollar value of the assets of the trust fund, by investment sector, managed by each emerging investment manager; and
- (3) describe the good faith effort made to include qualified emerging investment managers in the procurement process during the fiscal year.

This packet contains:

Bill 2-12

Legislative Request Report

Memo from County Executive

Fiscal and Economic Impact Statement

Circle #

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Bill No. 2-12
Concerning: Personnel – Retirement
Trust Funds – Emerging Investment
Managers
Revised: December 22, 2011 Draft No. 1
Introduced: January 17, 2012
Expires: July 17, 2013
Enacted: _____
Executive: _____
Effective: _____
Sunset Date: None
Ch. _____, Laws of Mont. Co. _____

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the request of the County Executive

AN ACT to:

- (1) require the Board of Investment Trustees and the Consolidated Retiree Health Benefits Trust Board of Trustees to make a good faith effort to hire qualified emerging investment managers; and
- (2) generally amend the laws governing the Employees' Retirement System and the Consolidated Retiree Health Benefits Trust Fund.

By adding

Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-60B and 33-162A

Boldface	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
[Single boldface brackets]	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
[[Double boldface brackets]]	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

The County Council for Montgomery County, Maryland approves the following Act:

1 **Sec. 1. Sections 33-60B and 33-162A are added as follows:**

2 **33-60B. Emerging Investment Managers.**

3 **(a) Legislative findings.**

- 4 (1) Emerging investment managers, including businesses owned by
5 women, minorities and disabled individuals, should receive an
6 equal opportunity to provide investment management services
7 to the Board of Investment Trustees.
- 8 (2) The Board of Investment Trustees has adopted a policy
9 requiring its staff to identify qualified emerging investment
10 managers to participate in an investment manager search,
11 including regular monitoring of investment managers.
- 12 (3) Expanding opportunities for emerging investment managers
13 will increase competition.

14 **(b) Definitions.**

15 As used in this Section:

16 Assets means total client assets managed by an investment manager.

17 Emerging investment manager means:

- 18 (1) an investment manager with assets or product assets below the
19 75th percentile of their respective peer group; or
- 20 (2) a new or developing investment manager.

21 New or developing investment manager means an investment
22 manager:

- 23 (1) raising its first or second private institutional investment fund;
24 or
- 25 (2) creating its first institutional product.

26 Product Assets means client assets managed by an investment
27 manager in a single strategy.

28 (c) Consistent with the fiduciary duties established in Section 33-61C, the
29 Board must make a good faith effort to remove any barriers that limit
30 participation by qualified emerging investment managers to manage
31 funds for the Employees' Retirement System.

32 (d) The Board must adopt guidelines to identify and evaluate qualified
33 emerging investment managers. The guidelines must include
34 procedures for:

35 (1) identifying possible firms;

36 (2) reviewing, evaluating and interviewing emerging investment
37 managers on an ongoing basis; and

38 (3) maintaining research files on emerging investment managers.

39 (e) The Board must report annually to the Council and the Executive on
40 compliance with this Section on or before September 1 for the prior
41 fiscal year. The report must:

42 (1) identify each emerging investment manager used during the
43 fiscal year;

44 (2) list the percentage and dollar value of the assets of the trust
45 fund, by investment sector, managed by each emerging
46 investment manager; and

47 (3) describe the good faith effort made to include qualified
48 emerging investment managers in the procurement process
49 during the fiscal year.

50 **33-162A. Emerging Investment Managers.**

51 (a) Legislative findings.

52 (1) Emerging investment managers, including businesses owned by
53 women, minorities and disabled individuals, should receive an

54 equal opportunity to provide investment management services
55 to the Consolidated Retiree Health Benefits Trust Board.

56 (2) The Board has adopted a policy requiring its staff to identify
57 qualified emerging investment managers to participate in an
58 investment manager search, including regular monitoring of
59 investment managers.

60 (3) Expanding opportunities for emerging investment managers
61 will increase competition.

62 (b) Definitions.

63 As used in this Section:

64 Assets means total client assets managed by an investment manager.

65 Emerging investment manager means:

66 (1) an investment manager with assets or product assets below the
67 75th percentile of their respective peer group; or

68 (2) a new or developing investment manager.

69 New or developing investment manager means an investment
70 manager:

71 (1) raising its first or second private institutional investment fund;
72 or

73 (2) creating its first institutional product.

74 Product Assets means client assets managed by an investment
75 manager in a single strategy.

76 (c) Consistent with the fiduciary duties established in Section 33-163, the
77 Board must make a good faith effort to remove any barriers that limit
78 participation by qualified emerging investment managers to manage
79 funds for the Consolidated Retiree Health Benefits Trust Fund.

80 (d) The Board must adopt guidelines to identify and evaluate qualified
81 emerging investment managers. The guidelines must include
82 procedures for:

- 83 (i) identifying possible firms;
- 84 (ii) reviewing, evaluating and interviewing emerging
85 investment managers on an ongoing basis; and
- 86 (iii) maintaining research files on emerging investment
87 managers.

88 (e) The Board must report annually to the Council and the Executive on
89 compliance with this Section on or before September 1 for the prior
90 fiscal year. The report must:

- 91 (1) identify each emerging investment manager used during the
92 fiscal year;
- 93 (2) list the percentage and dollar value of the assets of the trust
94 fund, by investment sector, managed by each emerging
95 investment manager; and
- 96 (3) describe the good faith effort made to include qualified
97 emerging investment managers in the procurement process
98 during the fiscal year.

99 *Approved:*

100
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Roger Berliner, President, County Council Date

102 *Approved:*

103

Isiah Leggett, County Executive Date

LEGISLATIVE REQUEST REPORT

Bill 2-12

Personnel – Retirement Trust Funds – Emerging Investment Managers

DESCRIPTION: This Bill would encourage the Board of Investment Trustees and the Consolidated Retiree Health Benefits Trust Board (Boards) to continue their current efforts to provide opportunities for emerging investment managers to manage some of the assets of the Employees' Retirement System Trust Fund and the Consolidated Retiree Health Benefits Trust Fund, consistent with their fiduciary duties.

PROBLEM: The Bill would codify the current procurement policies used by each Board which requires all investment managers who meet the stated criteria to be included in a search for a new investment manager. The Bill would also require the Boards to report annually to the Executive and the Council on the results of their good faith efforts to include emerging firms.

GOALS AND OBJECTIVES: The goal of this Bill is to provide opportunities for emerging investment managers to manage some of the assets of the Employees' Retirement System Trust Fund and the Consolidated Retiree Health Benefit Trust Fund.

COORDINATION: The Boards and the County Attorney's Office have reviewed this bill.

FISCAL IMPACT: See Fiscal and Economic Impact Statement.

ECONOMIC IMPACT: See Fiscal and Economic Impact Statement.

EVALUATION: N/A

EXPERIENCE ELSEWHERE: The State of Maryland, along with several other state and local pension systems, have recently enacted similar policies and laws requiring a pension system's governing body to make a good faith effort to use emerging managers.

SOURCE OF INFORMATION: Linda Herman, Board of Investment Trustees
Amy Moskowitz, County Attorney's Office

APPLICATION WITHIN MUNICIPALITIES: N/A

PENALTIES: N/A



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

December 19, 2011

TO: Roger Berliner, Council President

FROM: Isiah Leggett, County Executive 

SUBJECT: Bill ___ - Personnel - Retirement – Emerging Investment Managers

I am transmitting for introduction at Council a bill that would amend the County Code to require the Boards overseeing the investment programs for the Employees' Retirement System (ERS) and the Consolidated Retiree Health Benefits Trust (CRHBT) to continue their current efforts to include emerging investment managers in the procurement of services for the investment programs. I am also transmitting a Legislative Request Report and Fiscal and Economic Impact Statement for the bill.

The bill would require the Boards to make a good faith effort to use emerging investment managers defined as: (1) an investment manager with assets or product assets below the 75th percentile of their respective peer group; or (2) a new or developing investment manager.

The current Service Provider Procurement Policies (Policies) of the Boards require the Boards to include emerging investment managers in searches if the firms meet the search criteria. The Policies require special efforts be made by the Boards' staff and its consultants to ensure identification of possible eligible investment managers to participate in the search process, including regular monitoring of investment managers and maintenance of research files on such investment managers to assist efforts when searches begin. In addition, the Boards receive quarterly reports from Board staff on meetings conducted with emerging investment managers and their analysis of the firms.

As of November 30, 2011 the Board of Investment Trustees committed approximately 6% of ERS assets with firms that were emerging investment managers when hired.

I am proposing this legislation to codify the current procurement policies used by the Boards which require all service providers who meet the stated criteria to be included in searches conducted by the Boards. The primary purpose of the legislation is to ensure that all service providers are afforded the opportunity to participate in procurement searches conducted by the Boards, to provide full transparency of the procurement process, and to ensure that the

Roger Berliner, Council President
December 19, 2011
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intent and goals of the current procurement practices remain in place regardless of future changes in Board membership due to terms expiring, changes to Board policies, or changes in Board Staff. The legislation would also require an annual report on efforts made by the Board to include emerging service providers.

Thank you for your prompt consideration of this bill.

Attachments (3):

Proposed Legislation
Legislative Request Report
Fiscal and Economic Impact Statements



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Jennifer A. Hughes
Director

MEMORANDUM

December 9, 2011

TO: Roger Berliner, President, County Council

FROM: Jennifer A. Hughes, Director

SUBJECT: Council Bill XX-11 – Personnel – Retirement – Emerging Investment Managers

Attached please find the fiscal and economic impact statements for the above referenced legislation.

JAH:hv

Attachments

c: Kathleen Boucher, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Joy Nurmi, Special Assistant to the County Executive
Joseph F. Beach, Director, Department of Finance
Patrick Lacefield, Director, Public Information Office
Michael Coveyou, Department of Finance
Linda Herman, Executive Director, Board of Investment Trustees
Amy Moskowitz, Office of the County Attorney
Helen Vallone, Office of Management and Budget
Naeem Mia, Office of Management and Budget
Blaise DeFazio, Office of Management and Budget

Office of the Director

101 Monroe Street, 14th Floor • Rockville, Maryland 20850 • 240-777-2800
www.montgomerycountymd.gov



Fiscal Impact Statement
Council Bill XX-11 – Personnel – Retirement – Emerging Investment Managers

1. Legislative Summary

The bill would amend the County Code to encourage the Boards overseeing the investment programs for the Employees' Retirement System (ERS) and the Consolidated Retiree Health Benefits Trust (CRHBT) to continue their current efforts to include emerging investment managers in the procurement of services for the investment programs. The Bill would require the Boards to make a good faith effort to use emerging investment managers defined as:

- an investment manager with assets or product assets below the 75th percentile of their respective peer group; or
- a new or developing investment manager

The current Service Provider Procurement Policies (Policies) require the Boards to include emerging investment managers in searches if the firms meet the search criteria. The Policies require special efforts be made by the Boards' staff and its consultants to ensure identification of possible eligible investment managers to participate in the search process, including regular monitoring of investment managers and maintenance of research files on such investment managers to assist efforts when searches begin. In addition, the Boards receive quarterly reports from Board staff on meetings conducted with emerging investment managers and their analysis of the firms. The bill also requires annual reporting to the County Council on efforts made by the Boards to include emerging investment managers.

- 2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.**

This bill has no impact to revenues or expenditures.

- 3. Revenue and expenditure estimates covering at least the next 6 fiscal years.**

This bill has no impact to revenues or expenditures.

- 4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.**

Not Applicable

- 5. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.**

This change will not result in subsequent government action that will impact future revenues and expenditures.

6. An estimate of the staff time needed to implement the bill.

Not Applicable

7. An explanation of how the addition of new staff responsibilities would affect other duties.

No change in staff responsibilities.

8. An estimate of costs when an additional appropriation is needed.

Not Applicable

9. A description of any variable that could affect revenue and cost estimates.

Not Applicable

10. Ranges of revenue or expenditures that are uncertain or difficult to project.

Not Applicable

11. If a bill is likely to have no fiscal impact, why that is the case.

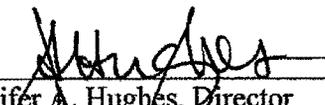
The bill codifies the current procurement policies used by the Boards which require all investment managers who meet the stated criteria to be included in searches conducted by the respective Boards.

12. Other fiscal impacts or comments.

Not Applicable

13. The following contributed to and concurred with this analysis:

Linda Herman, Executive Director, Board of Investment Trustees and Consolidated Retiree Health Benefits Board
Amy Moskowitz, Counsel to the Boards, Office of the County Attorney
Helen Vallone, Office of Management and Budget
Naeem Mia, Office of Management and Budget
Blaise DeFazio, Office of Management and Budget



Jennifer A. Hughes, Director
Office of Management and Budget

12/9/11
Date

Economic Impact Statement
Council Bill XX-11, Qualified Emerging Investment Managers

Background:

This legislation requires the Boards overseeing the County's Retirement Plans and the Consolidated Retiree Health Benefits Trust to make a good faith effort to hire qualified emerging investment managers. A qualified emerging investment manager is defined as an investment manager with assets or product assets below the 75th percentile of their respective peer group; or a new investment manager who is raising its first or second private institutional investment fund; or creating its first institutional product. This legislation codifies current policy and practices of both Boards.

1. The sources of information, assumptions, and methodologies used.

Not Applicable. This legislation codifies current policy and practice, and its only requirement that is not currently in place is a requirement for an annual report, which the Boards state can be handled with existing resources.

2. A description of any variable that could affect economic impact estimates.

Not Applicable

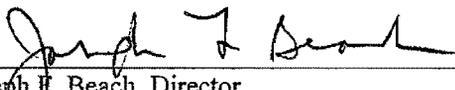
3. The bill's positive or negative effect, if any, on employment, spending, saving, investment, incomes, and property values in the County.

Not Applicable

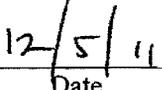
4. If a bill is likely to have no economic impact, why that is the case.

This Bill codifies current policy and practice; therefore there is no economic impact.

5. The following contributed to and concurred with this analysis: David Platt, Finance; Mike Coveyou, Finance



Joseph F. Beach, Director
Department of Finance



Date