



Board of Administration

Agenda Item 8a

May 18, 2026

Item Name: Senate Bill 1319 (Durazo) - Public Records Act and Alternative Investment Vehicles

Program: Legislation

Item Type: Action

Recommendation

Adopt an **OPPOSE** position on Senate Bill (SB) 1319 (Durazo), as amended April 15, 2026. SB 1319 rolls back private investment protections first established in law in 2005 and puts the California Public Employees' Retirement System (CalPERS), and all other California public pension plans, at a competitive disadvantage with other institutional investors who do not have the same disclosure requirements. CalPERS is already recognized as the most transparent pension fund in the U.S. according to the CEM Global Pension Transparency Benchmark. If SB 1319 were to be signed into law, it would negatively impact the overall returns of the retirement fund necessitating a reduction of the discount rate by 50 basis points that would reduce the funded status by 5%, increase employer contributions \$6.1 to \$6.8 billion annually, and significantly increase contributions for Public Employees' Pension Reform Act (PEPRA) members.

Executive Summary

SB 1319 proposes amendments to the Public Records Act (PRA) that would significantly expand public disclosure requirements for CalPERS' alternative investment vehicles (AIVs), including detailed information about underlying portfolio companies, fund managers, financial terms, and performance comparisons. SB 1319 would roll back private investment protections established in 2005, placing CalPERS at a competitive disadvantage compared to other institutional investors who do not face similar requirements. The bill threatens CalPERS' access to top-performing private equity, private credit, infrastructure and real estate funds, which may choose to find other pools of capital rather than consent to provide proprietary and trade secret information. We also expect that many innovative startup companies will be reluctant to consent to the public disclosure of confidential and proprietary information, hindering both growth and the ability of our managers to invest in the best companies. Additionally, the retroactive nature of the disclosure requirements poses legal and reputational risks by conflicting with existing agreements.

If this legislation becomes law, CalPERS recommends reducing the discount rate by 50 basis points beginning in FY 2027-28 to account for expected lower investment returns from private market investments. This is estimated to reduce the total funded status of the system by 5% and increase employer contributions by \$6.1 to \$6.8 billion annually. Furthermore, most miscellaneous PEPRA members would be subject to contribution increases of at least 1% of pensionable compensation and safety PEPRA members of at least 2% of pensionable compensation. Examples of increased PEPRA member contributions are illustrated below:

- School member with compensation of \$50K/yr = increased contributions of \$600/yr
- Misc. member with compensation of \$80K/yr = increased contributions of \$900/yr
- Safety member with compensation of \$100K/yr = increased contributions of \$2,500/yr

By limiting investment opportunities and increasing costs this bill risks impairing California retirement boards' fiduciary duty.

Strategic Plan

This item supports the CalPERS Pension Sustainability Strategic Goal to strengthen the long-term sustainability of the pension fund by mitigating the risk of significant investment loss while balancing contribution levels and volatility and delivering risk-adjusted investment returns to meet or exceed the expected rate of return.

Investment Beliefs

This item supports the following CalPERS' Investment Belief:

- Investment Belief 3: CalPERS' investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

Background

History of Alternative Investment Vehicle Disclosures

In December 2001, the CalPERS Board of Administration (Board) directed CalPERS investment team members to enhance performance reporting for its Private Equity Program and work with other institutional investors and the Institutional Limited Partners Association (ILPA) to advance reporting standards for the industry.

In March 2003, the CalPERS Board approved an alternative investment disclosure policy which led to the establishment of a website with information about its Private Equity Program. This information is updated quarterly on the CalPERS website and includes:

- Fund name
- Vintage year (the year in which CalPERS' first cash flow for the investment occurred)
- Capital committed (identifies the original amount CalPERS committed to each fund)
- Cash in (represents capital contributed for investments and management fees)
- Cash out (represents distributions CalPERS has received back from the fund)
- Cash out and remaining value (represents the distributions CalPERS has received plus the reported value of the invested capital)
- Net IRR (the net internal rate of return based on CalPERS' actual cash flows and the reported value of the invested capital)

- Investment multiple (the cash out and remaining value divided by the cash in)

In 2005, CalPERS co-sponsored SB 439 (Chapter 258, Statutes of 2005) which established a clear standard for the disclosure of alternative investment information. The legislation required the disclosure of information detailed above. In addition, the legislation specifically exempted specified proprietary investment data, particularly company level information, from disclosure under the PRA. At the time, many alternative investment firms did not partner with public pension systems because of the potential public disclosure of such information. CalPERS acknowledged the legitimate interest of the public in knowing how public monies were invested and recognized its obligation to be responsive to information requests while protecting the confidential financial information of individual, privately owned companies. SB 439 represented a balance of competing interests in preserving industry proprietary information, while also respecting the public's right to access investment information, and had no opposition by the time it was enrolled.

Assembly Bill 2833 (Chapter 361, Statutes of 2016) added section 7514.7 to the Government Code to require California public retirement systems, including CalPERS to report on certain fees, expenses, and carried interest paid in AIVs.

Specifically, AB 2833 requires the following information to be disclosed at least annually for any post-2016 contract or new commitment to a pre-2017 contract:

- The fees and expenses paid directly to the alternative investment vehicle, the fund manager, or related parties;
- The pro rata share of fees and expenses not included above, that are paid from the alternative investment vehicle to the fund manager or related parties, which may be independently calculated by the public investment fund;
- The pro rata share of carried interest distributed to the fund manager or related parties;
- The pro rata share of aggregate fees and expenses paid by all of the portfolio companies held within the alternative investment vehicle to the fund manager or related parties; and,
- Any additional information relating to alternative investments that the PRA requires public pension or retirement systems to disclose pursuant to subdivision (c) of section 7928.710.

AB 2833 further specified that the report includes the gross and net rate of return of each alternative investment vehicle, since inception.

In 2012, CalPERS implemented standardized reporting forms for General Partners (GPs) in CalPERS private equity investments that were adapted from an ILPA standardized capital call and distribution template. CalPERS began reporting carried interest paid to the GPs in its private equity investments in 2015, as part of its development of a proprietary tool that allowed CalPERS to comprehensively report information from private equity investments.

AB 2833 helped standardize alternative investment fee and expense reporting and improved confidence in California public pension systems by increasing transparency.

CalPERS went beyond the legal requirements of AB 2833 for post-2016 AIV by reporting the required items for all existing AIVs.

In 2025, CalPERS was recognized as the most transparent pension fund in the U.S. and the fourth most transparent pension system globally according to the CEM Global Pension

Transparency Benchmark, which ranks the largest pension organizations in 15 countries on how much information they share with the public.

Among the many reports the CalPERS Investment Office provides to the public to assess investment performance is the CalPERS Trust Level Review. This report includes an overview of current economic conditions, risk positioning, and performance tables for all CalPERS funds and asset classes (including private and public markets) along with benchmark comparisons by quarter, fiscal year to date (FYTD), 1-year, 5-year, 10-year, and 20-year periods.

CalPERS publishes Investment Transaction Summary by asset class which includes the following information by month:

- The beginning market value,
- Purchases,
- Sales,
- Other changes in market value, and
- The ending market value.

Private Markets Performance

CalPERS' investments in private markets include Private Debt, Private Equity, and Real Assets (Real Estate and Infrastructure). Private markets remain a key source of performance, diversification and reduced PERF volatility. As illustrated in the chart below private equity is the highest performing asset class, outperforming public equity over the past 20, 10 and 5 years and private debt has outperformed fixed income.

| CalPERS performance by asset class as of 6/30/25 ranked by 20-year return | | | | | | |
|---|---------|---------|--------|--------|--|--|
| | 20-year | 10-year | 5-year | 1-year | | |
| Private Equity | 11.7% | 11.5% | 16.6% | 14.3% | | |
| Public Equity | 8.2% | 9.8% | 13.2% | 16.8% | | |
| Fixed Income | 4.3% | 2.5% | -1.2% | 6.5% | | |
| Real Assets | 3.4% | 4.6% | 3.3% | 2.8% | | |
| Private Debt | n/a | n/a | 10.8% | 12.8% | | |
| | | | | | | |
| Total PERF | 6.9% | 7.2% | 8.0% | 11.6% | | |

Constitutional Authority and Fiduciary Responsibility

Article XVI, Section 17 of the California Constitution gives the boards of public retirement systems in California plenary authority and fiduciary responsibility for investment of pension assets and administration of the system. The Constitution expressly provides that the retirement boards of a public pension fund shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. It further requires board members of a public pension or retirement system to discharge their duties solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. The Constitution also requires the boards of public pension funds to diversify the investments of the system to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so. In accordance with California

Constitution Article XVI, Section 17, the Board's constitutional duties take precedence over any other considerations.

As currently drafted, SB 1319 does not contain any "fiduciary out" clauses, and potentially impairs the Board's plenary authority and fiduciary duty.

Analysis

SB 1319 amends the PRA to grant the public access to the following records held by CalPERS on any existing or future AIV, and require CalPERS to at least annually report this information on any AIV contract entered into on or after 2017:

- The name of each general partner or manager 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.
- The total amount of cash contributions made by all investors.
- A comparison of the results against 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 market, after controlling for risk, liquidity, and expense.
 - Requires that the index be chosen at the time the public investment fund commits to the AIV.
- For each AIV that remains active beyond the end of its originally stated term, the basis for continued operation, the current value of assets, 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 AIV, including the financial terms of any such continuation fund or transaction, management fees, and the valuations of the assets involved in the transaction.
- With respect to an AIV which 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 in which the investment is made, the geographic locations where the enterprise or activity takes place, and the number and classifications of employees at each such location, using the United States Bureau of Labor Statistics' 2018 Occupational Classification system.
- With respect to AIV with debt investments, the number and aggregate dollar value of loans valued by the AIV at less than 75% of face value if originated by the AIV, or less than 75% of cost to the AIV if purchased, and a list of third-party rating agencies hired by the AIV to assign ratings to the loans.
- Amends an existing law that prohibits the disclosure of records containing information regarding the portfolio positions in which alternative investment funds invest to allow for the disclosure of items provided for by this bill.

Consistent with CalPERS fiduciary duty to evaluate and monitor its private market investments, CalPERS does obtain much of the information that would be required to be disclosed publicly by SB 1319. Regarding the information that CalPERS does not currently have access, CalPERS

does not consider that information necessary to fulfill its fiduciary obligations and has not contracted for such information.

Competitive Disadvantage Leading to Reduced Returns and Higher Contributions

As previously stated, CalPERS already discloses significantly more information about its investments compared to other large public pension plans. SB 1319 would require identification of individual portfolio companies (currently over 5,000) and problematic disclosures at the fund level. Such requirements would put CalPERS at a competitive disadvantage with other institutional investors which would not be subject to SB 1319's disclosure requirements.

In 2022, CalPERS began an overhaul of its Private Equity strategy which has led to a dramatic turnaround in performance versus its peers. CalPERS is now often considered a preferred Limited Partner by high-quality GPs. Higher returning private market investments have allowed for lower employer and employee contributions. Additional disclosures outside of existing industry standards would limit CalPERS' access to these GPs. If CalPERS is excluded from top-performing private funds due to these requirements, it would negatively impact the overall returns of the retirement fund resulting in increased contributions.

Less Funding for Innovation, Jobs, and Emerging/Diverse Managers

While SB 1319 would negatively impact CalPERS' access to all private equity strategies, it would specifically harm our recent shift to venture and growth funds. Company founders may not partner with GPs who are required to disclose the level of information provided by SB 1319 because it might impact their competitive advantage in their respective markets. These investment opportunities drive innovation and job growth in California. In the CalPERS for California Report 2024, CalPERS estimated that its investments in Private Markets drove \$26 billion in California investments and created over 173,000 jobs. Excluding CalPERS from this segment of the market would cost California jobs and make California less innovative and economically dynamic.

SB 1319 would also impact emerging and diverse manager investments where CalPERS has been particularly impactful in creating partnerships. Over the last three fiscal years, CalPERS has allocated \$17 billion to emerging and diverse managers in Private Equity alone. This bill jeopardizes CalPERS' ability to build on this success, and it could make it more challenging for emerging and diverse managers to grow their business.

Jeopardizes the Sustainable Investment's \$100 Billion Climate Action Plan

The Climate Action Plan (Plan) lays out a global strategy to generate strong performance by investing in opportunities created by the global shift to a low-carbon economy. SB 1319 limits CalPERS' opportunities to invest in climate solutions in private markets jeopardizing its ability to reach its \$100 Billion goal by 2030. Additionally, SB 1319 does not consider that the Plan already includes a comprehensive Environmental, Social and Governance (ESG) integration and monitoring program where CalPERS partners with its asset managers to identify ESG-related risks and holds its investment partners accountable to labor principles. All new investment partners have attested alignment with the labor principles. As of June 30, 2025, private asset classes contribute just over half of the \$59.7 billion in climate solutions.

Conflicts with Board Approval of Total Portfolio Approach

In November 2025, the CalPERS Board voted to adopt the “Total Portfolio Approach” (TPA) to increase transparency and give CalPERS team members more flexibility to capitalize on a variety of market opportunities across asset classes.

SB 1319 is counterproductive to the implementation of the TPA model. TPA calls for an increase in Private Market investments, and the disclosure requirements within this bill would impede CalPERS’ ability to increase these types of investments and its ability to achieve the stated goals of TPA.

Legal and Reputational Risk

As currently drafted, the disclosure requirements within SB 1319 would require CalPERS to disclose upon request any of the newly required information we have in our possession relating to any alternative investment vehicle. In addition, due to the cross-reference in Government Code Section 7417.4, CalPERS may be expected to obtain this new information on any contract entered into on or after January 1, 2017.

The retroactive application of these provisions to contracts entered into before the effective date of the proposed legislation would conflict with hundreds of existing CalPERS alternative investment agreements. CalPERS has explicitly agreed to keep confidential company portfolio positions and other proprietary information that under SB 1319 would now become required to be disclosed. GPs may take legal action to enforce those contractual provisions and/or take other punitive actions against CalPERS allowed by the agreements themselves. Importantly, the typical alternative investment agreement gives the GP discretion to withhold confidential information from CalPERS on a going-forward basis if CalPERS cannot honor its confidentiality agreements. If GPs take this route, as we expect they will, it will be difficult to perform our fiduciary responsibility to monitor the performance of our investments. Finally, many alternative investment agreements also give the GP discretion to force a withdrawal of CalPERS from the alternative investment vehicle if our continued participation may have a material adverse effect. We would anticipate this remedy being utilized on a disproportional basis in the best performing funds. Taken as a whole, this legislation may keep CalPERS out of private markets going forward and even force our withdrawal via the secondary market, which could transact at below-market pricing.

Budget and Fiscal Impacts

Impact on Employer and Member Contributions

This bill would require CalPERS to disclose the underlying portfolio companies in our alternative investment vehicles including private equity, private debt, real estate and infrastructure, among other onerous disclosure requirements. These requirements would put CalPERS at a competitive disadvantage and limit our ability to access the private markets with higher returns at the level we do today. CalPERS is considered a preferred Limited Partner for the most coveted General Partners. This bill would impede access to these General Partners and their lower cost co-investments. Private equity has yielded the system’s highest returns over the past 20, 10, and 5 years. If CalPERS is excluded from top-performing private funds and co-investments, it would likely negatively impact the overall returns of the retirement fund resulting in increased contributions. Our actuarial and investment offices recommend lowering the discount rate by 50 basis points. This change would reduce the total funded status of the

system by 5% and increase total contributions for all plans by \$6.1 to \$6.8 billion annually, as outlined below:

| Estimated Increases to Annual Required Contributions Assuming a 50 Basis Point Decrease in the Expected Long-Term Return (\$ billions) ¹ | | | | | | |
|--|--|-------|-----------------------------------|-------|---------------------------------|-------|
| | Unfunded Liability Payment ² | | Normal Cost Increase ³ | | Total Contributions Increase | |
| | Min | Max | Min | Max | Min | Max |
| State | \$1.5 | \$1.7 | \$0.8 | \$0.8 | \$2.3 | \$2.5 |
| Schools | 0.8 | 0.9 | 0.5 | 0.5 | 1.3 | 1.4 |
| PA Total | 1.8 | 2.0 | 0.7 | 0.9 | 2.5 | 2.9 |
| Grand Total | \$4.1 | \$4.7 | \$2.0 | \$2.1 | \$6.1 | \$6.8 |

PEPRA members are required to contribute at least 50% of the total annual normal cost of their pension benefit. As per Government Code section 7522.30, State employees are excluded from this requirement except for employees of the Legislature, California State University (CSU), and the judicial branch. The total normal cost of PEPRA members' benefits is remeasured annually as part of the actuarial valuation based on the active PEPRA population in the plan. If the total normal cost changes by 1% or more from the base total normal cost established for the plan, the new member rate shall be 50% of the new normal cost rounded to the nearest quarter percent.

Lowering the discount rate is expected to increase the normal cost for all plans which means that all PEPRA members employed by a school, public agency, the legislative branch, the judicial branch and CSU would see an increase in their employee contributions. All state members employed by bargaining units 2, 5, 12, 16, and 18 will also be subject to an increase in their employee contributions per their current collective bargaining agreements. The table below provides an estimate of the expected increases in normal cost by plan type.

¹ An expected decrease of 50 bp in the long-term expected investment return would likely result in an immediate decrease in the discount rate of 50 bp. This would increase the System's Accrued Liability and Unfunded Accrued Liability. This increase would be amortized over 20 years which would increase employer contributions. Under the Entry Age Normal Cost Method, this would immediately reduce the funded status of the System, although there would not be an immediate change in the level of system assets, or expected future benefit payments.

² Ranges shown reflect the timing of when the annual payment will first be reflected in required employer contributions. These payments would continue for a period of 20 years.

³ Ranges shown reflect the estimated annual costs based upon a sampling of large public agency plans. Plan by plan results would vary. This estimation process was not necessary for the state and schools plans. These costs are expected to persist in the future and increase annually by the assumed wage inflation assumption of 3%. These amounts represent estimated increases to the plans. Due to resulting member contribution rate adjustments under PEPRA, these cost increases will be shared by both employers and employees.

| | <u>Normal Cost % Increase</u> | | |
|-------------------|-------------------------------|------|-----------------|
| | Min | Max | Single Estimate |
| State | | | |
| Misc | | | 2.4% |
| Industrial | | | 2.3% |
| Safety | | | 2.6% |
| POFF | | | 4.2% |
| CHP | | | 4.6% |
| Schools | | | 2.4% |
| PA Misc | 2.2% | 2.4% | |
| PA Safety | 3.9% | 5.0% | |

Administrative Costs

CalPERS is invested in over 650 AIVs that include over 5,000 portfolio companies. We anticipate significant legal expenses in the range of \$500,000 - \$3,000,000 for the first few years associated with the current portfolio, including potential litigation. On an ongoing basis, we would expect additional administrative and legal costs of \$500,000 - \$750,000 negotiating for and collecting the required information.

Benefits and Risks

Benefits:

- None.

Risks:

- Places CalPERS at a competitive disadvantage in the private markets.
- Results in lower investment returns leading to a lower discount rate and significant increases in contributions for employers and PEPRA members.
- The retroactive nature of the bill would put CalPERS in a compromised position as an institutional investor, including risk of litigation, loss of information rights, and even forced withdrawal from AIVs.
- Limits investment opportunities in emerging and diverse managers and climate solutions.
- Imposes an undue financial burden on employers and PEPRA employees through increased contribution rates.

Attachments

Attachment 1 – Support and Opposition

Attachment 2 - Impact of SB 1319 on Private Equity Returns, Total Fund Performance,
and Funded Status.

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