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The Beginning of the End

BY DAVID G. BRONNER

After six months of meetings, on March 16, the Alabama Legislature’s Joint Committee on Public Pensions held what may have been its final meeting. And it was a doozy. The Committee ramrodded through a vote endorsing Rep. Lynn Greer’s disastrous cash balance plan bill, which he proposed to replace RSA’s current Tier II retirement plan.

RSA was not allowed to speak to the Committee on its opposition to Rep. Greer’s cash balance bill prior to the vote, despite repeated assurances from Committee Chair Sen. Arthur Orr and Rep. Greer that RSA would be heard **before** the bill was voted on. Instead, Rep. Greer pushed it to a vote over the strong objections of Sen. Bobby Singleton and Rep. Randall Shedd. Rep. Ken Johnson also refused to vote against RSA’s members and retirees. Rep. Shedd said it best when he described the hasty vote on the deeply flawed bill as “the beginning of the end [of RSA].”

Sen. Orr and Rep. Greer have repeatedly stated that the Committee would take no action that would hurt current RSA members and retirees. Their actions tell a very different story. There is **no** other cash balance plan in existence like the one pushed by Rep. Greer. RSA informed him that 1) it doesn’t save taxpayers money, 2) it may violate the Alabama Constitution, and 3) there is no way of knowing whether or how it could hurt the financial stability of RSA’s current Tier I and Tier II plans—in other words, **your retirement**. Rep. Greer would not allow other members of the Committee to hear these serious concerns and called for a vote anyway.

That same day, Rep. Greer also pushed through another bill that gave the University of North Alabama (UNA) the authority to allow its new employees not to participate in RSA so UNA would not have to pay the full amount (\$56 million) it owes RSA for its employees’ retirements. Instead, the rest of the TRS system will have to pay UNA’s share. To get it through, Rep. Greer testified that his UNA bill would not hurt RSA—another false statement. The UNA bill damages the financial stability of the current plans and jeopardizes **your retirement**.

You should be concerned that the Committee has endorsed measures that will hurt the safety and stability of your retirement. Speak up and let Sen. Orr and Rep. Greer hear your concerns before it is too late. ●

Pew Got \$9.7 Million Judas Got 30 Pieces of Silver

BY DAVID G. BRONNER

The relationship between the Laura and John Arnold Foundation and the Pew Charitable Trust public sector retirement systems’ project has become worse. As an executive at Enron, John Arnold walked away with an \$8 million bonus at the same time the company collapsed and wiped out the rank and file employees and negatively hurt public pension funds. The Arnolds’ have already spent over \$50 million to trash and mess up public pension programs from California to Kentucky.

The billionaire Koch Brothers have funded numerous college professors (like the Johnson Center at Troy University, giving them over \$298,000) to also bash public pension programs and mislead the public. In addition, the Alabama Policy Institute, originally started by well-intentioned business leaders, has taken over \$180,000 from the Arnold Foundation.

Pew does not just release reports, they promote cash balance plans. They have lobbied for these failed plans in Kansas, Kentucky, Alabama, Virginia, and others. Remember, this is done with the backing of the Arnolds’ money.

Pew received \$4.85 million for 2012-2015 and will now receive another \$4.85 million for 2015-2019, for a total of \$9.7 million to continue the campaign of misinformation directed at one of the best vehicles there is for the retirement security of America’s education and public employees.

They are not going away. The only way our members win is if Alabama legislators loudly hear your voice. ●

RSA’s Big Deals for the Home Place

BY CHARLIE INGRAM | BUSINESS ALABAMA

Pivate placement investments in Alabama companies by the Retirement Systems of Alabama have been one of the state’s most powerful forces for

economic development—creating 282,564 jobs in 11 years, and yielding a return that beat stocks and bonds.

In December 2014, the Alabama

Supreme Court ruled in favor of the Retirement Systems of Alabama in *Denson*

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RSA'S BIG DEALS FOR THE HOME PLACE (CONTINUED)

v. Bronner, a lawsuit brought by two RSA members seeking to prohibit RSA's private placement investments in Alabama companies and various real estate holdings in the state. The lawsuit claimed that those investments generated a lower return than investments in stocks and bonds.

A year later, RSA head David Bronner—ever ready to spar with detractors—landed a return punch in the December 2015 issue of *The Advisor*, a newsletter for RSA members. “TO MY CRITICS,” Bronner wrote in bold print and all capital letters, “it is with great pleasure to point out that our best performing investments in 2015 came from the private placements sector. Both the private placements and real estate show the importance of diversification of a large investment portfolio. Just maybe, investing a small percentage of our assets in our state pays off in more ways than originally thought.”

Denson v. Bronner was just another in a long line of swipes at the 71-year-old Bronner, who has been the RSA's chief executive officer since 1973. Under his tenure, RSA assets have grown from \$500 million to \$32.6 billion, as membership in the pension system has surpassed 339,000. RSA was ranked in the top 12 percent of the nation's largest pension funds at the end of its 2015 fiscal year, according to State Street Investment Analytics. In 2015, the stock market saw its worst year since 2008, and some large pension funds lost value. RSA saw a 1 percent return but still heard the cry of critics. Currently, for example, consideration is being given to proposals that would change Alabama's pension fund options. It's really nothing new for Bronner.

“The politicians of the state, including the governor, are elected to solve problems, and if they're lucky, they get two terms, eight years,” he says. “But some get four years, and if they didn't solve the problems, they're outta here. But the pension fund guy has to worry about the 18-year-olds and the 21-year-olds who come to work for the state. It's my job to make sure they have something 30 and 40 years from now. Our objectives are totally opposite, so you're always going to have conflict between the politicians and the guy who's looking long-term.”

To be sure, RSA investments have their good years and not-so-good years,

and some of the RSA's private placement investments have fared better than others. They are not all winners. But RSA has had more than its share of winners in the private placement sector, and those winners pay off in more ways than return on investment, Bronner and others say. Only about 5 percent of RSA's assets are in private placements within Alabama, whereas private placement investments in the United States and overseas account for almost 25 percent of RSA's portfolio.

“We definitely would prefer to do these investments with Alabama companies,” says Hunter Harrell, director of RSA's private placements since 2003. “It benefits RSA, the state of Alabama's tax base and the people of Alabama by providing additional employment, which in turn generates additional income that in turn provides all the ancillary-type businesses that revolve around people having more money.” RSA's largest-ever private placement investment was also one of its best. It started in 2006 when RSA provided additional working capital for Wise Metals in Muscle Shoals, a manufacturer of aluminum for beverage cans. From then until 2014, RSA invested \$580 million in Wise Metals and acquired a 15 percent equity stake. When the company was sold in 2014, RSA had been repaid for all of those loans and received \$58.7 million for its equity share. “I think that's a pretty good return,” Harrell says. “It's certainly better than average. We try to get equity in our transactions because that's where the upside is. We're not always able to do that, but it's generally part of the negotiation process.” In addition to money that RSA made from dealing with Wise Metals, there was an additional benefit to the state. The new owner, Netherlands-based Constellium, broke ground last year on a \$900 million expansion to manufacture aluminum parts for the automotive industry. When completed, that should mean even more jobs at the 1,200-employee facility.

In a different deal, in south Alabama, RSA acquired a 19 percent equity stake in Monroe County businesses that were sold to Georgia-Pacific in 2010 as the Alabama River and Alabama Pine pulp mills, also referred to as the Alabama River Group. RSA investments there dated to the late 1980s and totaled some \$462

million. RSA received \$79.5 million for its equity in that scenario. Georgia-Pacific has since announced a \$110 million project at what is now known as Georgia-Pacific Cellulose operations to upgrade wood yards and a pulp machine.

Not all RSA investments yield such returns. Some go south, but even then RSA has in all likelihood taken steps to mitigate the damage and given itself a chance to recover. A good example is its involvement with Canada-based National Steel Car, which broke ground in 2007 on a huge plant near Muscle Shoals to build railroad freight cars. The plant was to be a mile long and employ 1,800 workers. It didn't happen. The project quickly derailed, running head-on into the 2008 recession and leaving RSA to sort through the wreckage. RSA initially invested \$350 million to help build the plant, but it became apparent that the Canadian owner didn't have the funds to finish the construction. In 2009, RSA's investment to finish construction of the facility reached more than \$550 million. “They didn't have enough money to finish the plant, and by the time we figured that out, we decided to complete the plant and take ownership, because you can't have a half-built plant just sitting there in north Alabama,” Harrell says. RSA had taken the right steps, however, to give itself a way out. “We started out in this investment being sure we had a lien on all the assets,” Harrell says. “We negotiated the right to buy the property around the facility, approximately 650 acres, and we did that. So we had the plant, the hard assets, and the acreage, too, and that's what we try to do—to make these loans as secure as we can.”

RSA took ownership of the plant in 2010, but demand for rail cars at the time was anemic, owing to the ongoing recession. In 2011, however, Chicago-based Navistar signed a 10-year lease to occupy the facility. Navistar, the nation's top producer of school buses and medium and heavy-duty trucks, has since subleased roughly a third of the plant to Freight-Car America. Navistar employs roughly 300 people at the facility, and FreightCar America has 850 employees, according to a Navistar spokesperson. “If things always went like clockwork, there would be no need for lawyers, bankruptcy attorneys

Legislature should not tinker with RSA

BY KEN ROBINSON | LAGNIAPPE

[...] I get an incredible front-row seat to something that has for some time been thriving and growing; the beauty, attraction and vitality of downtown Mobile [...]

It's something many Mobilians now take for granted—a nightly lit-up downtown skyline. Granted, it's not as luminous as the skylines of New York City or Las Vegas, but Mobile's has a humble beauty and brilliance that is quite appealing. During this year's carnival season [...] The colors glowing and changing—in sync—on each building have been absolutely stunning to see!

Anyone from Mobile who is over the age of 30 knows this has not always been the case. Downtown was not a place people wished to be at night. You came for a purpose and then you left—often quickly [...]

Mobile has benefited from a

purposeful intent on the part of RSA to grow the urban centers of Alabama's largest cities. It's part of an overall strategy of creating value in the state through investment in world-class hotels—such as the Battle House in downtown Mobile, the Marriott Grand in Point Clear, the Renaissance Ross Bridge in Hoover, the Renaissance Montgomery—and golf courses for which Alabama has become known all over the world.

The Robert Trent Jones Golf Trail, 26 different golf courses spread out across 11 locations in the state, has become a tourism boon for Alabama as golfers from around the nation and globe putt, dine and sleep their way across our state. RSA's novel strategy of consistently investing a portion of its money in the growth and advancement of Alabama has paid huge dividends.

Starting from very humble beginnings—around \$500 million in 1973—and growing to around \$38 billion today, RSA is the 115th largest pension fund in the world. The person who has played a major part in that phenomenal growth is RSA's David G. Bronner. I'd venture to say the two men who've done the most to promote and advance the Alabama name, the Alabama brand are Bronner and Nick Saban.

I don't think I need to say how Saban has done that, but Bronner's role may be a bit lesser known, even though he's been at it much longer. His desire, his vision to make Alabama a place where people actually want to come and visit, play, work, invest and live has helped transform this state.

It's about more than just putting shiny lights on buildings. It's been about

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RSA'S BIG DEALS FOR THE HOME PLACE (CONTINUED)

and all of that," Harrell says. "Unlike most transactions that mature and pay off and everybody goes their happy way, we took this one back and are managing it. If everything goes to our plan and their purchase options, I think we'll be fine. And we are getting monthly income from that facility."

Bronner and Harrell both would like to invest in more Alabama companies, but there simply aren't as many opportunities here as elsewhere. "I do know as the little bureaucrat that it's a lot harder for me to do things in Alabama than it is in New York or California or Europe or Asia," Bronner says. "We have all those investments, but if we (Alabama) don't invest in ourselves, we're just sitting here hoping somebody else will come in and invest in us." Bronner cites a recent RSA investment in an Auburn company, SIO2 Medical Products, as a strong example of the kind of investment he wants to make. The company's founder, New York inventor and businessman Bob Abrams, established a small presence in Auburn some 20 years ago with a company that developed and marketed plastic containers for pharmaceuticals, consumer products and food service industries.

In 2013, SIO2 Medical Products

opened in Auburn with 300 employees. Together, Abrams' companies in Auburn now have more than 500 employees, many of them in better-than-average-pay jobs. RSA backed SIO2 Medical Products with an \$80 million loan. The company, according to its website, "manufactures products that combine the durability of plastics with the barrier properties and product contact surface of glass." In short, the material is well suited for delivering protein-based drugs, which have a skyrocketing demand. "The level of sophistication at the RSA was much greater than I've found in very few of the normal sources (of financing)," says Abrams, who has plans to build a similar plant in Switzerland. "They understood the long-term importance of this industry and that it was just going to grow—that it's the future of the pharmaceutical industry. Auburn, we hope, is going to grow substantially over the next five to 10 years." Such growth, from Bronner's perspective, is the prescription Alabama needs.

HOW PRIVATE PLACEMENTS FIT INTO THE RSA PORTFOLIO

As of late December, RSA's portfolio of \$32.6 billion included \$7.6 billion in private placements, or 23.5 percent of the total, with Alabama private placements

making up 5 percent of the total. The private placements refer mainly to investments made in companies, both debt and equity deals, along with real estate holdings.

Based on a study by M. Keivan Deravi, an economics professor at Auburn University at Montgomery, the amount of money RSA has invested in Alabama private placements has generated more in returns than if it had been invested in stocks and bonds. Between 1990-2011, RSA invested \$5.6 billion in Alabama companies and real estate, in 2011 dollars. If invested in stocks and bonds, that money could have generated a return of \$541.6 million, or a return of roughly 10 percent. But Deravi's study notes that RSA investments are estimated to have generated \$1.1 billion in additional tax revenues for the state, which means a return of 19 percent. The study says that between 1990-2011, RSA investments generated an additional \$28 billion in cumulative gross domestic product for the state, \$14 billion in cumulative earnings and 282,564 fulltime jobs. Based on that data, the study concludes that for every \$1 of RSA funds invested in Alabama, the return has been \$1.57. ●

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- April 2-3, 10-11, 16-17, 24
- May 1-2, 15-17, 22-25, 29-30
- June 19, 26-27, 30

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LEGISLATURE SHOULD NOT TINKER WITH RSA (CONTINUED)

implementing a belief that Alabama can change its unfortunate negative image; it can build a better brand. Bronner and RSA's investment philosophy have reflected that vision and Alabama is a hell of a lot better for it.

Unfortunately, now there's a movement afoot to derail what RSA has been trying to do over the last few decades. Despite having a 25-year investment return rate of around 8 percent, despite the fact that since 1990 RSA's investment in the state of Alabama has generated more than \$14 billion in payroll earnings and led to the creation of more than 280,000 jobs in the state, despite tourism dollars being spent in Alabama now topping \$12 billion dollars per year, there are voices in the state Legislature—and vested outside interests—calling for changes in how the RSA is run.

We all know that old saying, "if it ain't broke don't fix it." Well, RSA isn't broke, either figuratively or literally. If there's any tweaking that needs to be done, allow those who have guided it successfully for these past decades to do so. Please resist the voices that call for wholesale change and a playbook rewrite.

Sometimes you have to know when to say thanks, but no thanks. Now is that time. ●

For the entire story, visit
www.lagniappemobile.com.



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