

Another Political Hack Job

BY DAVID G. BRONNER

(THE ALEC REPORT IS ON OUR WEBSITE UNDER “FAKE NEWS”)

As you may be aware, the American Legislative Exchange Council (ALEC) recently released a report titled “Keeping the Promise: Getting the Politics Out of Pensions” (the “ALEC report”) that criticized, at length, RSA’s Alabama investments.

ALEC’s criticisms were taken primarily from the January 13, 2016, report made by the Pew Charitable Trusts (the “Pew report”) to the Joint Committee on Alabama Public Pensions (JCAPP). Unlike Pew, however, ALEC failed to include any of the positive data regarding RSA investments (such as the relatively high returns in the past few years and having the lowest investment expenses in the country), and did not attempt to discuss the subject matter of the report with RSA prior to publication. ALEC also presented

much information that is misleading and just plain wrong.

For example, ALEC represents that RSA’s unfunded liability is \$75B, five times that calculated by RSA’s actuaries. In order to reach this shocking and over-inflated number, ALEC employs a risk-free rate of 2.344% in substitution of RSA’s assumed rate of return of 8.00% (soon to be 7.75%). ALEC does so even though GASB specifically rejected the use of this rate in calculating future liabilities and despite the fact that this calculation has little practical value.

ALEC’s approach to calculating the unfunded liability also ignores the reality of RSA’s investment returns. For the past seven years after the economic crisis, the ERS has averaged 9.36% and TRS has averaged 9.42% returns annually gross of

fees. These returns are better than more than 80% of the universe of public pension plans in RSA’s peer group. For the last 35 years, the TRS has averaged 9.40% and ERS has averaged 8.98% annual returns. The use of 2.344% assumed rate of return to calculate pension liabilities cannot be justified in light of these historic returns.

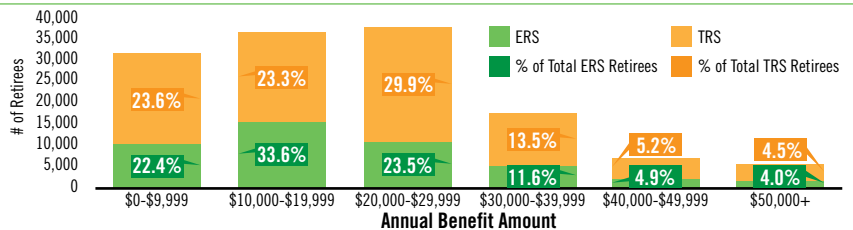
In addition, ALEC presents two charts (Figs. 3 and 5) that purport to represent a comparison of the fiscal year 2014 investment returns for RSA’s non-Alabama and Alabama real estate, private placement, and preferred and private equity holdings. ALEC states that the RSA’s Alabama investments returned 1.21% and the non-Alabama investments returned 3.24%, and RSA’s Alabama real

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What RSA Retirees Are Paid For Their Service

9/30/2016

76.8% of TRS retirees
79.5% of ERS retirees
earn less than \$30,000 in annual benefits



U.S. Says Ex-Pension Fund Aide Took Bribes

BY CORINNE RAMEY | THE WALL STREET JOURNAL

A former portfolio manager of New York state’s pension fund steered more than \$2 billion in business to two brokerage firms in exchange for bribes that included prostitutes, cocaine, concert tickets and a \$17,400 Panerai watch, according to federal prosecutors.

“This was an age-old and classic tale of quid-pro-quo corruption,” U.S. Attorney Preet Bharara said...

Concerns about improper influence peddling have long plagued the pension world, where outside investment firms compete to manage hundreds of billions in retirees’ money in exchange for lucrative fees.

Those who oversee assets of public employees are supposed to ensure that firms selected to invest or trade are chosen based on performance instead of political

connections. But the new accusations in New York represent the third high-profile case in the past decade where access to pension money was allegedly sold to favored firms that provided kickbacks.

In 2014 the former chief executive of the California Public Employees’ Retirement System admitted to accepting cash

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estate investments returned 0.28% and non-Alabama real estate investments returned 6.73%. It is hard to understand how ALEC came up with these numbers when RSA's investment returns for these three asset classes were 8.48% for real estate, 13.55% for private placements, and 17.71% for preferred and private equity in fiscal year 2014.

Furthermore, ALEC falsely represents that Alabama investments comprise 16.3% of RSA's portfolio, more than three times the actual percentage of Alabama investments. ALEC disingenuously includes Raycom and CNHI in these calculations just as Pew did in its reports to the JCAPP. Both Pew and ALEC ignored the facts that Raycom derives only 8.5% of its revenues from Alabama operations and CNHI receives only 1.6% of its revenues from Alabama operations. In addition, the headquarters of both companies were moved to Alabama only after the RSA

invested in the companies. If these two companies are properly categorized and excluded, only about 5% of RSA's overall portfolio is in Alabama investments. ALEC further compares this asset allocation to only three other states with no mention of how many states have in-state investments, what the average allocation is for each state, etc., rendering the comparison meaningless.

ALEC also mischaracterizes the fiduciary standards that apply to the TRS and ERS Boards, and argues that they should be strengthened for the purpose of prohibiting the Boards from investing in Alabama real estate and businesses. In Table 4, ALEC ignores the Alabama Constitution and statutes, Alabama Supreme Court decisions, Alabama Attorney General opinions and Board investment policy and makes the spurious claim that the TRS and ERS are not governed by four of six basic fiduciary rules. In fact,

all of the fiduciary principles listed in the table govern the conduct of TRS and ERS Board members.

Moreover, the underlying premise—that Alabama investments are somehow inferior and always violate fiduciary standards – is false and not supported by fiduciary law. The TRS and ERS Investment Policies apply the same prudent man standard to Alabama investments and both provide that “investments in Alabama businesses are encouraged to the extent the investment return meets the criteria delineated by this policy statement. Any Alabama investment must be forecast to have a return comparable to other investments in the same asset class.”

These are just a few points that we thought were important to raise after our review of the ALEC report. Unfortunately, there are many more flawed arguments and inaccurate data included in the report. ●

U.S. Says Ex-Pension Fund Aide Took Bribes

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bribes from a former board member who acted as a middleman between the giant retirement system and outside money managers. Four years earlier, former New York State Comptroller Alan Hevesi pleaded guilty to accepting nearly \$1 million in travel and other benefits from a California money manager who won \$250 million in investments from the state's pension fund.

The state of New York made changes designed to prevent such abuses. Yet now a former portfolio manager for the same retirement fund faces new accusations that he traded access in exchange for personal gain.

Navnoor Kang, a 37-year-old former portfolio manager at the New York State Common Retirement Fund, was arrested Wednesday in Portland, Ore., and Deborah Kelley, 58, a broker and former managing director at Sterne Agee, surrendered to the authorities in San Francisco. A second broker, Gregg Schonhorn, 45, a former vice president at FTN Financial, pleaded guilty and is cooperating with federal prosecutors, authorities said.

State Comptroller Thomas DiNapoli said Wednesday that Mr. Kang was dismissed in February. “The New York State Common Retirement Fund has absolutely no tolerance for self-dealing, and we are

outraged by Mr. Kang's shocking betrayal of his responsibilities,” he said.

From January 2014 through February 2016, Mr. Kang was director of fixed income and head of portfolio strategy for the New York fund, where he was in charge of investing more than \$53 billion in bonds, according to the indictment.

Ms. Kelley and Mr. Schonhorn sought the fund's business, though at the time neither of the firms was on the pension fund's approved list, prosecutors said. The fund is the third largest in the U.S. with \$184.5 billion in assets.

The bribes began in early 2014, prosecutors said. In February and April of that year, Mr. Schonhorn took Mr. Kang on weekend trips to Montreal, where he paid for flights, hotels and cocaine, among other perks, the indictment says. In October 2014, Ms. Kelley took Mr. Kang to New Orleans, where she paid for VIP tickets to a Paul McCartney concert, according to the charges.

At first, Mr. Kang arranged the trades in question through an intermediate firm, according to the indictment. In the fall of 2014, when Mr. Kang was allegedly arranging for approvals for the two brokerages to do business directly with the fund, the bribes increased, according to prosecutors. Mr. Schonhorn paid for

strip clubs, and tickets to the U.S. Open tennis tournament and Broadway shows, the indictment says, and allegedly gave Mr. Kang thousands of dollars in cash for prostitutes, strippers and other personal expenses.

The defendants took steps to “conceal their corrupt and cozy relationship,” Mr. Bharara said, such as communicating through WhatsApp, a smartphone application, to avoid detection by law enforcement. They also filed false expense reports to their firms, he said.

The perks allegedly continued. In February 2015, Ms. Kelley paid for Mr. Kang to take a ski trip in Utah, where she paid for meals, a hotel room and ski lessons for Mr. Kang and his girlfriend, the indictment says.

In exchange for all this, prosecutors said, Mr. Kang repeatedly steered business to the two firms. Beginning in early 2014, Mr. Kang accepted more than \$100,000 in bribes, in exchange for steering what prosecutors said was more than \$2 billion in trades to the brokerage firms. Prosecutors said these payments resulted in millions of dollars in commissions, of which Mr. Schonhorn and Ms. Kelley earned from 35% to 40%.... ●

Alabama's Hole-in-One

BY JAMES R. HANSEN, WWW.ENCYCLOPEDIAOFALABAMA.ORG

The Robert Trent Jones Golf Trail is a series of championship courses across Alabama based on the designs of legendary American golf course architect Robert Trent Jones, Sr. The system, which includes resorts, spas, and dining facilities, is part of a massive financial investment and economic development project sponsored by the Retirement Systems of Alabama. Praised widely by critics and players alike for the affordability and the quality of play, the Trail has been cited in the media as one of the world's top-ten trips and featured prominently in the book *Fifty Places to Play Golf Before You Die* by Chris Santella.

The plan for the golf trail was originally conceived by David G. Bronner, a Minnesota native who in 1973 took over as chief executive officer of the Retirement Systems of Alabama, the pension funds for public employees. Bronner, who earned a law and doctoral degree from the University of Alabama, initially concentrated on traditional investments. By the mid-1980s, however, in order to diversify the fund and bring more business and industry to the state, he embarked on a highly unusual strategy.

Inspired by *Field of Dreams*, a 1989 Hollywood film in which a farmer builds a baseball field to attract tourism, Bronner decided to fund construction of a series of championship-caliber public golf courses, seeing the courses as a fulcrum for boosting tourism, attracting retirees, and spurring economic growth in Alabama.

He brought in Robert "Bobby" Vaughan, former director of golf at Tanglewood Golf Club in Clemmons, North Carolina, to put together a design team for the project. Vaughan formed the SunBelt Golf Corporation and, with Bronner's assistance, began forming alliances with municipalities, corporations, and private developers throughout the state to secure donations of prime land for the courses

the Tennessee line and continue all the way to Mobile Bay. The next challenge was to decide on a name for the trail that golfers from around the world would instantly recognize and associate with championship golf. They settled on Robert Trent Jones, arguably the premier golf-course architect in the world. In a career that spanned nearly 70 years, Jones had designed or redesigned almost 500



SILVER LAKES (ANNISTON/GADSDEN)

along the state's interstate highway system. When all the property was secured, SunBelt began hiring experts from the U.S. golf industry to develop, construct, and operate what would be the largest single golf-course construction project ever undertaken at one time anywhere in the world.

Early on, Bronner and Vaughn seized on the idea of establishing a "trail" of golf courses that would meander across the state, from the foothills of the Appalachians in north Alabama to the Gulf of Mexico in the south. Winter residents of the Gulf Coast heading south could play golf as soon as they crossed over

top-flight golf courses in 45 states and 35 countries. Jones' belief that every golf hole should be "a hard par but an easy bogey," had exerted a profound impact on American golf in the second half of the twentieth century.

Jones visited the state and inspected several of the sites. Although in semi-retirement, he agreed to tackle the project, leaving most of the detailed design work to his principal associate, Roger Rulewich. The Trail courses reflected all the essential elements of Robert Trent Jones' personal design philosophy, in which "risk-reward"



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Alabama's hole-in-one

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shots became a staple of modern golf. The golf courses on the Trail would live up to Jones' highest standards, offering genuine championship layouts designed to stand the test of time and pose major tests for generations of golfers. Aspiring to a level of difficulty that even surpassed the expectations of Jones himself, SunBelt president Bobby Vaughn encouraged Jones' associate Roger Rulewich to make the trail courses as difficult as possible, while at the same time offering value to players at various skill levels.

A wide variety of teeing locations, pegged to ability level rather than age or gender, enabled golfers to play the courses at varying distances. This flexibility was needed to make the Trail a satisfying golfing experience for a mass market, an experience that would challenge the best golfers in the world, yet at the same time allow an enjoyable outing for casual and beginning golfers. Adding to the flexibility was the inclusion of so-called short courses, highly challenging circuits located at seven of the 11 trail facilities. At least three of these courses have merited consideration as the most challenging par-3 courses in the world.

The Robert Trent Jones Golf Trail opened in 1992... The Trail has earned nearly universal acclaim, winning accolades and awards from numerous golf and tourism magazines, transforming Alabama into one of the world's top golf destinations. ●

The RSA ADVISOR

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Christopher P. Townes

The Retirement Systems of Alabama
201 South Union Street
P.O. Box 302150
Montgomery, Alabama 36130-2150
Phone: 334.517.7000
877.517.0020
RSA Website: www.rsa-al.gov