Dear Greg:

On behalf of the National Council on Teacher Retirement (NCTR) member systems that the Pew Charitable Trusts has contacted regarding its research on state public pension fund investment performance, I would like to thank you for extending an invitation to our members to collaborate on this project. NCTR’s member systems are happy to assist with your research efforts, and are very interested in providing information that will produce a comprehensive, factually sound narrative of what is often a misrepresented and misconstrued subject matter. In this regard, I am certain that we are in agreement about the importance of both capturing and representing data and information accurately, so I would like to bring to your attention several concerns our members have with your initial approach to this project.

Specifically:

- Preparation and dissemination of fact sheets prior to consultation with representatives of public pension funds, such as NCTR, or our members, did not allow for discussion of relevant and material questions and terminology. As you will recall from our last meeting, NCTR has specifically offered to work more closely with Pew in this regard, and I was disappointed that this opportunity was not made available before the fact sheets were developed.

- The limited scope of the fact sheet’s questions and its focus on numbers fail to capture the larger story of each fund’s investment performance, given the distinctiveness of each system, its appetite for risk, and the laws and policies under which these investment programs must operate. I would also suggest that the limited, short-range time periods associated with investment returns (1, 3, 5, and 10 years) could present a potentially misleading view of overall public plan investment performance as long-term investors. Given the severe market disruptions over this last 10-year period, focusing on this specific time frame may result, I believe, in an inaccurate picture of long-term investment performance for our member systems. This is particularly true in regards to the alternative and private equity asset classes upon which you have shown some focus recently and whose investment time frames often exceed these short-term periods for which you are seeking input.
While many plans do provide their investment policy statements online, others may not. That does not mean that, if requested, these documents would not be made available. The wording of your question could suggest that such “public availability” must somehow involve online access.

Expenses associated with alternative investments and real estate are reported in accordance with applicable accounting standards. The Governmental Accounting Standards Board (GASB) Statement Number 67, “Financial Reporting for Pension Plans,” provides guidance for the reporting of investment income and expenses, and such net reporting is contained in the financial statements of the plans and annually audited. Specifically, GASB states that net investment income is to include (1) the net appreciation (depreciation) in the fair value of plan investments; (2) interest income, dividend income, and other income not included in (1); and (3) total investment expense, separately displayed, including investment management and custodial fees and all other significant investment related costs. Plans are not required to include in the reported amount of investment expense those investment-related costs that are not readily separable from either investment income (the income is reported net of related expenses) or the general administrative expenses of the plan.

Furthermore, while the nature of the expenses and fees associated with certain of these kinds of investments may be known, they may not be readily separable from investment income (reported net) and/or the actual dollar amount of any fees associated with them may be indeterminable until the investment’s term has run. This is particularly true in regards to the relative scale of the fee or expense compared to the whole output of the investment at close. Therefore, NCTR is very concerned with the “yes-or-no” approach to your question and any potential disclosures not in compliance with accounting standards. Our members are committed to operating in as transparent a manner as is possible, and a qualified “yes” in response to your question should therefore not be taken as effectively a “no.” Generalizations regarding this aspect of investing are fraught with the possibility of misunderstanding, and I would urge you to present the details of each system’s response as provided to you.

As you know, each state and local government pension fund is unique, with different constituencies, different retirement eligibility requirements designed to meet the occupational realities of their members, and different contribution and benefit accrual rates. These differences, along with various state statutes, policies, and regulations specific to each fund, drive investment decisions and performance. Therefore, attempting to provide a detailed “apples-to-apples” comparison among State retirement plans’ investment performance that is accurate and informative is very difficult to accomplish and could potentially be very misleading. We therefore hope that you will approach this project as more a compilation of information, rather than a comparative ranking.

I understand that the information captured in these fact sheets will be used by Pew in the production of a “50 state review” of investment data. Before any such final work product is made public, I request that our members have the opportunity to review and comment on its contents.

I would be happy to discuss this survey and our concerns with you in more detail at your convenience.

Sincerely,

Meredith Williams
Executive Director

cc: Joshua Hart, Senior Associate, Research; States’ Public Sector Retirement Systems; Pew Charitable Trusts

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