SAN DIEGO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

SDCERA
Strength. Service. Commitment.

August 11, 2014

SDCERA's long-term investment returns exceed the amount needed to fund the benefit

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In response to the *UT San Diego*'s August 9 Business section, "County bets all-in at pension casino" by opinion columnist Dan McSwain. The piece contains errors and could lead readers to incorrect conclusions.

SDCERA's Board, staff and investment consultants fulfill their fiduciary duty to members and taxpayers by prudently managing the investment portfolio. This prudent management is accomplished through various due diligence activities and educational investment presentations that culminate in decisions that are discussed and made during public meetings. The following is accurate information about SDCERA and management of the investment portfolio:

- <u>SDCERA's long-term investment returns exceed the amount needed to fund the benefit.</u> This is SDCERA's most important goal. The fund has experienced positive results with these investment strategies since introducing aspects of them in 2005. Looking long-term, the portfolio's 25-year returns of 9.43% as of June 30, 2014 have outperformed the fund's current assumed rate of return of 7.75% over time.

- <u>SDCERA's cash flow for the past decade has been positive</u>.
  For the past decade, SDCERA has experienced an annual average positive cash flow of $174 million coming from dividends and interest each year. The columnist inaccurately states SDCERA's cash flow as negative, omitting data provided to the *UT San Diego* prior to the article's publication. SDCERA explained the financial principle that cash flow includes all income sources (including contributions from employer, employee and investments) and all expenses, not only employer and employee contributions.

- <u>The health of SDCERA's fund is showing stability and strength</u>:
  The funded ratio is one measurement of a fund's health. SDCERA's funded ratio has increased from 78.7% in FY 2012 to 79.0% in FY 2013. SDCERA's one-year preliminary net investment returns for FY 2014 are11.43%, and the funded ratio is anticipated to increase to above 80.0%.

- <u>SDCERA's investment goal is to meet or exceed the fund's assumed rate of return which is the amount needed to fund the benefit.</u>
  SDCERA's portfolio's design and goal is <u>not</u> to beat our peer's performance. SDCERA's investment strategy has lowered risk over time by allocating less equity investment and more diversification. For example, in FY 2012, SDCERA's lower risk profile protected the fund

during a challenging equity market, generating a return of 6.42%. Public pension peer funds with heavier allocations in equities earned approximately 0% - 2% for the same period. In the FY 2013 and FY 2014 stronger equity markets, SDCERA exceeded the 7.75% needed to fund the benefit, with 8.25% and 13.82% gross returns respectively. Peers with more allocation to equity markets predictably generated stronger returns in this environment.

- SDCERA has been deliberate and transparent in making investment portfolio decisions. SDCERA's Board has received numerous educational presentations and conducted detailed discussions during a number of public meetings prior to adopting the portfolio's current asset allocation. This process was managed methodically and transparently from the first education shared about asset allocation options to final adoption of the current asset allocation. This systematic approach ensured that the Board received detailed information, was aware of all options, and had full opportunity for public discussion and deliberation.

To clarify for the record and prevent further misleading information in the public dialogue, the bullet-points below identify several more inaccuracies in the column.

- The column omits additional statements by Mr. Lee Partridge from the April 2014 Board meeting that provide necessary context for readers. Mr. Partridge was speaking about how one of the proposed portfolio allocation options presented to the Board would perform in a possible market scenario; he was not stating how SDCERA should change its investment goal.

- The article further misleads readers to think that the "government and its workers" haven't saved enough for their retirement. The funded ratio data provided above plainly refutes this statement. Defined benefit plans have an advantage of pooling funds and sharing the costs needed to fund the benefit. New contribution rates for employees are reducing the costs to employers over time.

- The column inaccurately states SDCERA's former general investment consultant, Hewitt EnnisKnupp (HEK), was fired. This is not true. HEK was not fired; the consultant's contract for services had ended. HEK participated in a subsequent RFP process that resulted in the Board's selection of a different provider.

In general, this opinion column oversimplifies and discounts SDCERA's important fiduciary decisions and the transparent, public dialogue that has occurred in tandem with the Board selection of the portfolio's new asset allocation, including the use of leverage. SDCERA is committed to fulfilling the prudent investment actions necessary to fund the benefit and provide stable costs to the employer, taking on no more investment risk than necessary.