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A SEAT AT THE TABLE

JARVIS HOLLINGSWORTH AND OTHERS EXPLAIN
HOW EMERGING MANAGERS CAN HELP WITH
PENSION PLAN BOARD DIVERSITY

A Seat at the Table

+BY JULIETTE MOORE

Efforts to diversify public pension plan boards could benefit from more hands-on involvement from emerging managers.

Efforts by NAIC and others in the past few decades to educate pension fund trustees about the benefits of more capital investment in the emerging domestic markets have borne fruit. An estimated \$11 billion of public-sector pension fund commitments (across all asset categories) now target EDM and economic development related investments; and an increasing number of institutional investors are working with emerging managers. Still, only a fraction of the nation's 2,547 pension funds have formal emerging manager programs and most allocate only minimal capital to EDM investment (*see exhibit 2, pg. 35*), despite exploding diversity among beneficiaries and in the local population.

One of the reasons trustee education has been so necessary is that too few trustees have the experience, contacts or knowledge needed to identify and pursue the attractive investment opportunities available in the EDM. While pension plan trustees have been talking about board diversity for more than a decade, white men still occupy most board seats by an overwhelming majority. Moreover, many trustees still view EDM investment as more of a social approach than a profitable component of their funds' overall investment strategy.

During a panel discussion at NAIC's annual convention last year, Robert "Bob" Greene, a principal with Syncom Venture Partners and former NAIC president, suggested association members take a more strategic approach to increasing the number of women and minorities on pension fund boards. James H. Lowry, a senior advisor and global diversity director for the Boston Consulting Group (BCG), adds that pension funds are looking for women and minorities who have the desire and capacity to serve.

So how does a person who is interested in holding a seat at the trustee table go about securing one? The Journal of EDM Finance asked Lowry, Greene and Jarvis Hollingsworth — a partner with Bracewell & Giuliani LLP, current chairman of the University of Houston Endowment, and a former chair of the \$100 billion Teacher Retirement System of Texas — to help demystify the process for our readers.

"Pension boards are looking for people who are honest, have strong financial acumen, and live up to the fiduciary responsibility," says Greene, a trustee of the Virginia Retirement System, which has \$48 billion in assets under management. "In the state of Virginia, there is a statute that requires trustees to come from a variety of different sources."

Indeed many pension funds require boards to include a mix of investment experts, employee benefit plan administrators, academic scholars, attorneys, active beneficiaries, retired share holders and others. In recent years, pension funds have also received pressure from beneficiaries, the public and elected officials to appoint more women and minorities to their boards. Trustee positions typically include a combination of ex-officio seats, elected official appointments and appointments made by constituent vote.

Though not a member of a pension fund board, Lowry serves on several other boards — including the Northwestern University and Howard University business school boards, and Toyota's diversity advisory board. He also chairs the Chicago Public Library Board, has advised numerous Fortune 500 companies on leadership diversity issues, and was the principle author of the 2009 NAIC/BCG status report on the EDM (*"Equity Capital in Emerging Domestic Markets and its Critical Role in Driving Growth in the Broader US*

Economy”, found online at: www.naicvc.com/Home/PDF/naic-bcg-mainstudy.pdf). Lowry notes that in addition to being willing to serve, board aspirants should honestly assess whether they are ready to deal with the politics of pursuing and holding a board seat.

Invariably, trustee appointments are highly politicized. This is true regardless of whether the process requires formal election by beneficiaries or appointment by a public or elected official. One of the first steps Lowry advises board aspirants to pursue is getting political. “Get [as] close to the strongest political ally as possible,” he says.

Although he agrees with Lowry, Hollingsworth notes that “getting political” does not always involve working through elected officials, especially in situations where a trustee is elected from a constituency. “[It] could simply mean you contact your colleagues to let them know your name is on the ballot.”

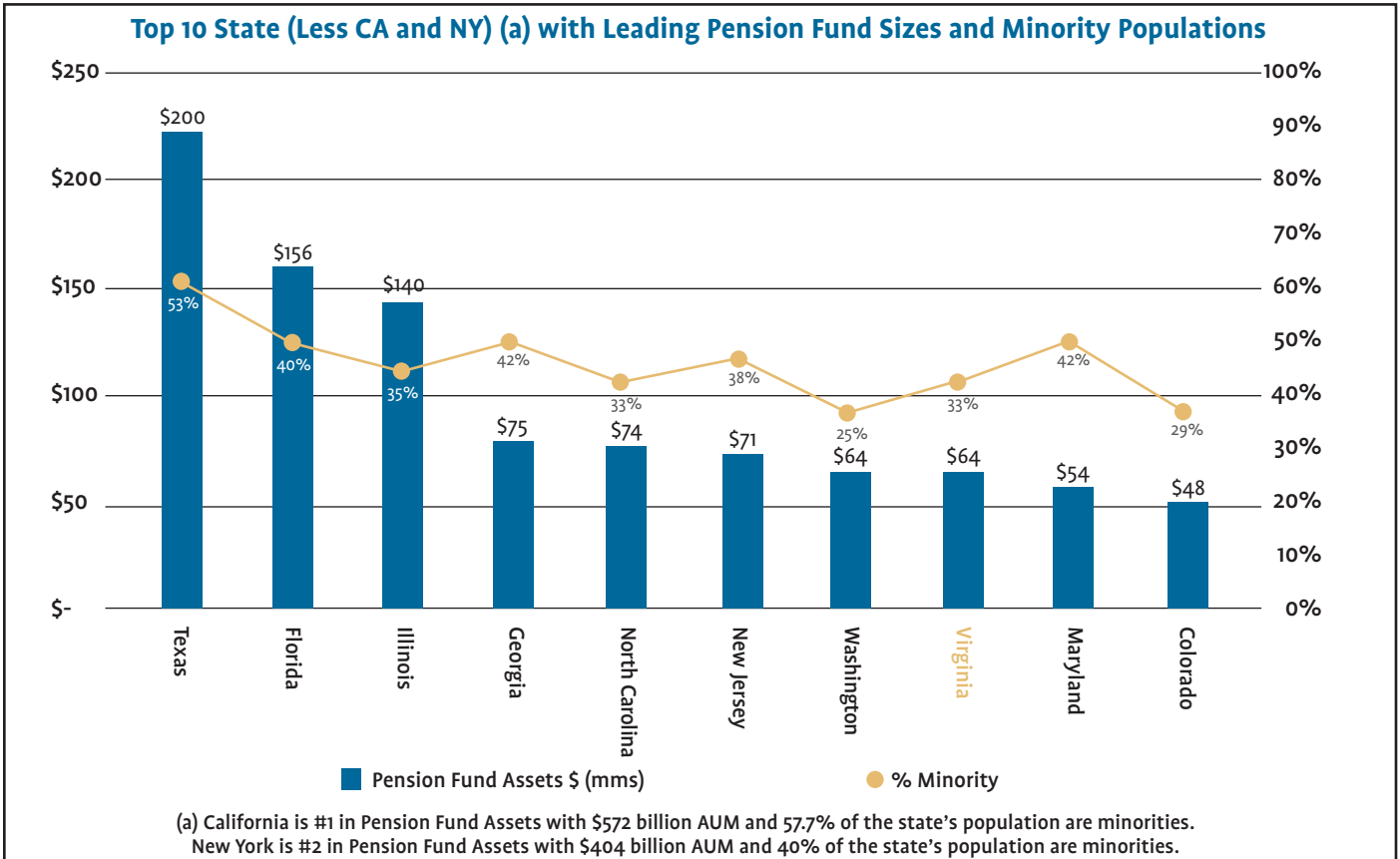
Even before one gets political, Hollingsworth advises getting clear about what you’re seeking and about the expectations of the position.

“Be reasonable about your goals,” he says. “Then find out how the appointment process works — be it politically appointed, elected or a combination of both. Determine your interest, discover the process and see if you qualify. Then, go after it by calling appointing officials or colleagues directly.”

Keeping Your Hands Clean

With pay-to-play allegations involving public pension funds making national news, pension fund board appointments are under increased scrutiny. In cases where elected officials make board appointments, it is important to understand the rules of engagement. Trustee aspirants need to become especially well informed about the limits on campaign contributions. Campaign contributions in general are usually fine, Lowry says, so long as they are not outrageous. “Emerging managers should be a part of the political system, and they should be aware that contributions are expected. It’s part of the American way,” he says. Lowry does not approve of making targeted contribu-

EXHIBIT 1



tions just to gain a board seat. “If you’re going to make a contribution, do your homework. Know what’s allowable and what’s not.”

Lowry believes that trustee aspirants who are not already engaged in the political process and who do not make political contributions where they are permitted are hindering themselves. He encourages them to get involved, but warns against going overboard. “Don’t make contributions large enough to be on the front page of the *Wall Street Journal*,” he says. In situations where contributions are permitted, he recommends making them at the beginning and the end of a political campaign because candidates remember those who gave at those particular times.

Hollingsworth admits that campaign contributions pose a difficult question, but says those who opt to make contributions should do so with no expectations. “[Making] campaign contributions does not mean a board appointment will be received if that official is elected,” he says. “There is also a very important trust factor associated with appointments to such high-profile positions.”

Greene agrees that quid pro quo expectations should never be considered, “it is unethical,” he says. “But depending on how they are done [contributions] can certainly provide access.”

Ethical, fiduciary and disclosure issues are all paramount topics for most (if not all) board governance committees, which typically write the policies that direct a board’s handling of these issues.

“When you are in a role of being an investor, it is important that the state agency gives clear policy for conflicts of interest, and how to mitigate or to circumnavigate the conflict,” Greene says. “In most cases, no single trustee rules on a particular board issue, you can recuse yourself [if conflict exists for you].”

Emerging managers who wish to pursue pension board seats should be fully aware of the level of scrutiny they will undergo. “Pension system boards have stronger ethics laws, [and a] high level of transparency with relationships and conflicts of interest,” Hollingsworth says adding that one should also expect close media scrutiny and public scrutiny. “While governing, system performance could be attributed to you, good or bad.”

For some, increased scrutiny can be a warning sign to not become involved. For those who are up to it, the rigors of such high scrutiny may not be a red flag at all.

“Your reputation is the only thing you have,” Lowry says. “Hold on to it.”

Finding the Right Match

Lawrence Hollins is founder and president of The Hollins Group, one of several executive search firms around the globe active in pairing qualified candidates with pension fund boards. The Hollins Group is renowned for its extensive reach into the minority professional community. “Boards need access to a diverse pool of people to add value,” Hollins says noting that sometimes the challenge isn’t finding the candidate, but the candidate finding the right board. “There is a great deal of interest from potential candidates to serve on pension boards,” he says. “But many don’t know or understand the board selection process and wonder if conflicts of interest exist.”

Researching a public pension fund and its asset allocations is fairly easy, since their investment policies and annual reports are available to the public. This makes it easy for trustee aspirants to learn about a fund and compare the current board’s allocation philosophy with his/her own philosophy. But how important is it for these two philosophies to align?

“It is very important to understand the nature and objective of the fund,” Greene says. “Take a look at the annual report, and then talk to existing trustees and staff. ... How pension dollars are invested doesn’t have to coincide with your personal investment strategy.”

Lowry says it should be very important. “There are two ways to look at this,” he says. “[Maybe you’re] not as comfy as you should be with [the funds’] present allocations. But use your seat to articulate why they ought to change, and be positive.”

Aspirants who don’t agree with a funds’ existing allocation policy can certainly opt not to pursue a trustee seat, but Lowry feels strongly that unless people with different perspectives become trustees, institutional investors will not change much and the EDM will continue to struggle under the capital constraints of the status quo. “More money needs to go to EDM



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— JARVIS HOLLINGSWORTH, BRACEWELL & GIULIANI LLP

to employ our people and emerging managers,” he says.

Hollingsworth shares this perspective. “If you don’t agree [with the funds’ allocations], make your thoughts known,” he says. “You could be a catalyst for change. You can be a maverick, but be an informed maverick.”

Hollingsworth stresses the importance of understanding the politics involved in board service, especially when one has a divergent perspective. Being well informed, he says, is essential to maintaining one’s credibility. Once you are credible, building relationships allows you to wield some influence.

“[When] you are a part of a board you need credibility and consensus. No one board member makes the decisions,” he says. “Know the philosophy, build

EXHIBIT 2

U.S. Pension Plans known to have committed assets to emerging manager strategies:

- 1199 SEIU Employees Benefit and Pension Funds
- Alameda County Employees’ Retirement Association
- Arkansas Teacher Retirement System
- Bank of America Corporation
- Boeing Company
- Boulé Foundation
- California Public Employees’ Retirement System
- California State Teachers’ Retirement System
- Chicago Policemen’s Annuity & Benefit Fund
- City of Kansas City Employees’ Retirement System
- City of Philadelphia Board of Pensions and Retirement
- Coca Cola Master Retirement Trust
- Contra Costa County Employees’ Retirement Association
- Detroit General Retirement System
- District of Columbia Retirement Board
- Exelon Corporation
- GE Asset Management
- Illinois Municipal Retirement Fund
- Illinois State Board of Investment
- Indiana Public Employees’ Retirement Fund
- Liberty Mutual Retirement Benefit Plan
- Los Angeles City Employees’ Retirement System
- Los Angeles County Employees Retirement Association
- Maryland State Retirement & Pension System
- Massachusetts Bay Transportation Authority Retirement Fund
- Michigan Department of Treasury
- Minnesota State Board of Investment
- Municipal Employees’ Annuity & Benefit Fund of Chicago
- New York City Board of Education Retirement System
- New York City Employees’ Retirement System
- New York City Fire Department Pension Fund
- New York City Police Pension Fund
- New York State Common Retirement Fund
- New York State Teachers’ Retirement System
- Ohio Public Employees Retirement System
- Oregon Public Employees Retirement Fund
- Pennsylvania Public School Employees’ Retirement System
- Pennsylvania Treasury Department, The
- PG&E Corporation
- PPL Services Corporation
- Public School Teachers’ Pension & Retirement Fund of Chicago
- San Antonio Fire & Police Pension Fund
- San Francisco City & County Employees’ Retirement System
- San Joaquin County Employees’ Retirement Association
- Seattle City Employees’ Retirement System
- Shell Oil Company
- State of Connecticut Retirement Plans & Trust Funds
- State Universities Retirement System of Illinois
- Teacher Retirement System of Texas
- Teachers’ Retirement System of the City of New York
- Teachers’ Retirement System of the State of Illinois
- Verizon Communications, Inc.

Source: Progress Investment Management Company LLC
 Successful Emerging Manager Strategies for the 21st Century
 2008

relationships with fellow board members, and get to know investment senior staff, don't micromanage, and build a reputation as someone who is responsible and respectful."

Once a new trustee is familiar with the issues and understands their fellow board members' perspectives, then he or she is in a position to start making the case for more EDM investment without sounding self-serving. Greene advises trustees to identify areas where the fund is lacking or [where it] could use assistance.

"This could mean a lack of diversity or increased alpha or [identifying a] talented pool of managers," he says adding that it is essential for new trustees to take the time to listen and learn a board's objectives. "Don't seek an immediate shift in policy. [Remember that you are] dealing with long-term pension beneficiaries who have expectations that you will act in their best interest. EDM can be one of a variety of things; don't presume that it fits all pension funds in all cases. Understand the perfor-

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mance of the fund. If the fund is struggling, you have to evaluate and identify areas that can increase performance whether it's by advising a change in asset classes, managers or strategy."

With empirical evidence about fund performance in hand, a strong case can usually be made for public pension funds to direct investments to the EDM. Lowry suggests new board members "argue their case based on past performance and the impact [EDM investment] can have on the community it serves."

Working Together

All of the people interviewed for this story agree that it is useful for talented individuals with knowledge of



Photo by Jason Miccolo Johnson

Robert "Bob" Greene

pension funds to make themselves available and seek board appointments when the pieces fit. We wondered whether it would be helpful for groups of underrepresented GPs in a given market to work together toward diversifying the boards in their states.

Lowry does not advocate collusion, but says minority and women GPs absolutely need to work together. "More emerging managers need to talk up other managers and talk up the industry," he says.

"It is useful for talented people with knowledge of pension funds to make themselves available," Greene says. "I don't necessarily agree that it needs to be pushed by GPs, but if done, it needs to be handled very carefully and strategically," Hollingsworth says. "Such efforts could give some the impression that EDM GPs expect the awarding of assets from minority trustees, adding even more scrutiny to these particular board members."

"We need education and an understanding of the [trustee] appointment system," Hollingsworth adds. "[We need to] encourage diverse individuals to become involved." **EDM**