Transparency in Public Pension Investments

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Forest or Trees?
1. **Public investments are often the ‘boring trees’**
   1. Not highly controversial
   2. Low Fees
   3. Easily Benchmarked

2. **Private investments are more difficult**
   - Very controversial
   - Difficult to get a handle on fees
   - Often opaque (activities, risks, fees)
   - Benchmarking difficult
   - Fund of Funds are much worse
NEA/CtW Hedge Fund Study

* Based on HF industry indexes

* Returns and ‘hedging’ benefit are questionable

* CEM Benchmarking study: data from pension funds—results even worse, as expected

* Insurance firms are cutting HF allocations
Users of Reporting
Prioritizing Key Elements

**Must-Have’s:**
1) Investment returns (short and long-term)
2) Fees
3) Disclosure about net/gross of fees

**Should-Have’s:**
1) Returns shown as a net of fees
2) Returns and fees by asset class

**Would be nice, but...**
1) Most standardization efforts helpful, but some are hard to produce, or have reasonable rationale (GASB recognized these dynamics)
* Maybe we’ll find conclusively that boring trees are best

* Let’s not use this data to create a short-termism problem
  * Corporate leaders are forced to make decisions based upon short-term results, at the expense of long-term investments
  * CALPERS has 1% return (over 1 year), critics race to play Chicken Little
  * Trustees feel these pressures today

* Pensions have significant advantage over most investors. Let’s not sacrifice that!
Conclusions

- Data availability has massively improved
- Transparency has also increased (and will continue to)
- Disclosure is strong on macro issues
  - Should be strengthened on private investments and
  - Fees by asset class
- Pensions now exist squarely in the political sphere, affecting how info is used and what hear
- Pensions have significant advantage over most investors, with a long-term focus. Let’s not sacrifice that!