

Remarks by State Treasurer Curtis M. Loftis, Jr. to the South Carolina Senate Concerning the SC Retirement Investment Commission

January 31, 2012

Let me begin by saying that my comments today are meant to be constructive. They are meant to shine the light of transparency on an issue important to taxpayers and government employees alike.

I am here to talk about the SCRS Investment Commission; an agency that has been tasked with what I, as the custodian of all public funds, believe is one of the most important duties in state government...the investment of South Carolina's public pension funds.

I have spent an entire year studying the pension system and have discovered that we have an underperforming pension fund that is expensive, overly complicated, and places the taxpayers and pension plan members at excessive risk. The bottom line is, the pension system is not transparent, is not accountable, and that affects us all.

- We have underperformed our peers over the last one year, three year, and five year periods.
- We pay too much for our investments; for example, last year alone we paid \$349 million dollars in fees.
- We have investments that few, if anyone, truly understands. Many of these deals were constructed outside the normal framework of the pension plan, and if problems are found they will take long periods of time to unwind.
- We have an asset allocation to "alternative investments" of 50%, far greater than the average pension fund target of approximately 10% to 15%.

By way of background, "alternative investments" are:

- An investment that is not one of the three traditional asset types (stocks, bonds and cash). They are complex in nature, have limited regulations and a relative lack of liquidity. Alternative investments include hedge funds, managed futures, real estate, commodities and derivative contracts.
- While they are subject to less regulation, they also have less opportunity to publish verifiable performance data.

Alternative investments are favored mainly because their returns have a low correlation with those of standard asset classes. Because of this, many large institutional funds such as pension plans and private endowments have begun to allocate a small portion (typically less than 10%) of their portfolios to alternative investments.

In utilizing these "alternative" investments we have over-exposed our pension plan to risk far beyond the reward we are receiving.

I would also add that the problem is not the laws passed by the General Assembly...rather it is clear to me that the laws governing the commission are **perfectly adequate** for proper governance.

No, this is about the lack of care by elected and appointed officials and therefore the solution to our problem is what every elected official always talks about but rarely acts on...transparency.

When the attention of many is focused on a problem, the self-correcting nature of transparency is evident. What we need is not more legislation, but the proper execution of the laws on the books, especially when those involved are executing their fiduciary responsibilities.

Case-and-point, the Treasurer is custodian of ALL public funds, yet the investment commission has removed 70% of the pension assets from the custody of the Treasurer. This is unacceptable and needs to be remedied.

As a member of the Budget and Control Board I am a Trustee of the pension plan. As the Treasurer I am the custodian of all, and let me repeat that, **ALL**, assets.

I am also a member of the Investment Commission, so you can see I have duties and responsibilities imposed on no one else...**the Treasurer clearly has responsibilities one might expect of the statewide constitutional officer tasked with the oversight and careful watch of our state's most precious asset, the public's money.**

Let me show you how this lack of transparency plays itself out. In June I asked to see the calendar, travel schedule, and entertainment expenses of the CIO. I was told in no uncertain terms, **"NO"**. I was told to issue a FOIA...an instrument that allows the commission to give me PUBLIC information only.

Please remember that my responsibility as Treasurer and member of the commission exposes me to civil liability with regards to commission activities.

I am a fiduciary and am therefore due privileged and timely information...but I was not given this information...and to this date I do not have that privileged information. This serious breach of the Commission's fiduciary responsibility, to provide timely and useful information, is but one of many examples of the need for much greater transparency and accountability within the Commission.

The Commission has had little oversight from past Treasurers and from the Budget and Control Board. Both have many responsibilities and it is easy to see how the Commission, with the complicated nature of its work and its professional staff, has been overlooked.

The Commission itself has delegated a tremendous amount of authority to the chief investment officer, staff, and the outside pension consultant. I urge a re-thinking of that strategy and a more hands-on approach by all those involved.

As you will see in the paperwork given to you, I use facts, figures, independent sources and outside media as the basis of my contentions. Again, please let me reiterate my central theme...the commission acts in a framework of laws **perfectly suitable** for their assigned task.

My reason for being here is to fulfill my fiduciary duties by informing you of problems created by a lack of transparency and accountability. Hopefully, with today's hearing...with articles in important financial publications like the Wall Street Journal, The Bond Buyer, Bloomberg and others, we will turn the page on this lack of transparency and accountability, and move toward a Commission that more properly understands its role in investing and safeguarding "public funds".

The Investment Commission is not broken, but it is bent. Proper oversight, and the execution of our fiduciary duties, will solve our problems.

It is important for me to state that Chairman Allen Gillespie has, especially since the recent departure of the former CIO, demonstrated a heightened commitment to transparency and accountability, and in fact has asked that the staff and the consultants prepare files on each of our alternative investments.

The Chairman reaches out to me on a regular basis and in my opinion...see's the light. He is a smart and honorable man and I appreciate his leadership in these areas.

So, let me close these remarks by saying we have problems, but they can be fixed. We do not need legislation. We need transparency and accountability. We need the officers in charge to exercise their fiduciary responsibilities AND obligations...and at every opportunity, do so in the clear light of day. I ask you to join me in calling for this needed transparency and accountability.

I ask that the Chairman Gillespie's review of the complex alternative investments and the strategic partnerships be enhanced as needed to provide the due diligence and level of comfort needed by prudent investors.

And lastly, I thank Senator Leatherman and members present for this opportunity to raise the issue to this special and important committee.