# FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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**PENSION NEWS CLIPS SEPTEMBER 2020 ON FLORIDA PENSION ISSUES**
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## Chemours Board Sued Over PFAS Liabilities Assumed in DuPont Spin

By Mike Leonard, Bloomberg Law, September 16, 2020

Chemours Co.'s board and senior management were sued by a pension fund in Delaware Chancery Court on Wednesday over billions in potential environmental liabilities related to PFAS, a class of "forever chemicals," that the company took on when it spun off from DuPont. The derivative lawsuit accuses the company's leaders of breaching their duties to investors in connection with the 2015 spinoff, which allegedly put Chemours on the hook for litigation and environmental cleanup costs, potentially exceeding $2.5 billion, related to the cancer-linked group of chemicals once used in firefighting foam and nonstick cookware. The new shareholder suit, filed under seal, appears broadly similar to a pair of derivative cases brought in Delaware federal court by individual investors in late July. Those suits accuse Chemours' board and leadership of concealing the extent of its PFAS liabilities while two top executives sold stock at prices inflated by the scheme. The new suit was filed by the **City of Hialeah Employees Retirement System**, a Florida municipal pension fund that holds Chemours stock. Under Chancery Court rules, the complaint is due to be unsealed on or around Sept. 21. The case is City of Hialeah Emp. Ret. Sys. v. Vergnano, Del. Ch., No. 2020-0786, complaint filed 9/16/20.

## Florida's Ash Williams on opportunities in a crisis

By Amanda White, Top 100 Funds, September 2020

In this Fiduciary Investors Series podcast Amanda White talks to Ash Williams, the executive director and chief investment officer of the **Florida State Board of Administration** about managing a large institutional portfolio in a time of crisis. Drawing on his decades of investment experience, which included returning to SBA in October 2008, Williams discusses the investment opportunities in the past six months including the move to more active management in equities, and a larger allocation to distressed. Williams says the most important thing in a crisis is to position your portfolio for liquidity requirements, with liquidity the only difference between "being a predator and prey". Ash Williams has earned a reputation for being able to head into the stormiest of investment markets and still show positive returns that outperform benchmarks and impress colleagues. As executive director and chief investment officer for the Florida State Board of Administration, Williams is responsible for managing approximately $200 billion in assets, including those of the Florida Retirement System, the fifth largest public pension fund in the United States. The fund provides retirement benefits to more than 900,000 current and former public employees.

## SEC Proxy Voting Rule Changes Could Weaken Minority Shareholder Influence

By Jackie Cook, Morningstar, September 17, 2020

On Sept. 16, the SEC was scheduled to hold an open meeting to decide whether to adopt new shareholder resolution filing rules. Late on Tuesday it abruptly, and with no further explanation, postponed the final decision by a week. If they pass next Wednesday, these rules would eliminate two of three resolutions aimed at protecting meatpacking workers and that were supported by a majority of minority shareholders. The SEC is not the only federal agency driving a wedge between investors and their votes. The largest public pension funds disclosing 2020 votes--CalPERS, CalSTRS, New York City Pension Funds, **Florida State Board of Investment**, State of Wisconsin Investment Board and Texas Teachers Retirement System--all supported these resolutions, voting unanimously for increased transparency of worker-related human rights risks.

## A Florida Senator Is Haranguing CalPERS Over China Investments. He Should Check Out His Own State's Fund

By Alicia McElhaney, Institutional Investor, September 2, 2020

Ben Meng's resignation as chief investment officer hasn't stopped out-of-state Congressmen from questioning the California Public Employees' Retirement System's ties to China. For at least one of these Congressmen, though, their own state pension fund is likewise heavily invested in Chinese companies. More recently, on August 19, Sen. Rick Scott from Florida sent a letter to CalPERS chief executive officer Marcie Frost urging the retirement system to "to review its policies and discontinue coordination with U.S.-listed Chinese-based companies." Yet **Florida's State Board of Administration**, which invests more than $200 billion on behalf of the state's retirement systems and other funds, has invested in several Chinese companies, including ones Banks has gone after on Twitter: Hikvision and China Construction Bank. Unlike Florida SBA, Banks' local pension fund — the Indiana Public Retirement System — provides less transparency about its investments. The retirement system lists only its top ten equity holdings in its annual report — none of which are Chinese — and did not return an email seeking further comment.

## Public Pensions' New Inflation Dilemma

By Girard Miller, Governing, September 15, 2020

To signal its intent to let the economy run a wee bit "hot" after the recession's end, seeking to restore full employment, the Federal Reserve has announced that it will fiddle with its inflation targets. There's a new problem on the horizon for public pensions, one that will call for some thoughtful reassessments of the always fraught assumptions that underlie their funding structures. The problem begins with bonds. One important consequence of these Fed actions is that the "real" yields (net of inflation) on Treasury Inflation-Protected Securities are now negative, ranging from minus 0.3 percent to minus 1.3 percent depending on when they mature. This has profound importance for pension funds. Inflation expectations are now much lower than 3 percent, and the Fed has restated its 2 percent target. But high-quality bonds no longer yield enough income to amply exceed even that level of inflation. Between 2002 and 2018, pension funds reduced their composite annual investment-return expectations by 83 basis points (0.83 percent), from 8.05 to 7.22 percent. Inflation expectations built into the pension plans' actuarial calculations have declined even more sharply, by 116 basis points, from 3.84 to 2.68 percent per annum. (Note that, actuarially, lower actual inflation would beneficially reduce the plans' future baby-boomer COLA liabilities.) The plans' average assumed annual real rate of return (net of inflation) has thus increased over the past decade, by 33 basis points, from 4.21 to 4.54 percent. That uptrend seems dubious.

## Alabama Municipalities Move to Improve Fire Fighter Pensions

IAFF News Release, September 15, 2020

During a time of great uncertainty due to the COVID-19 pandemic, the Professional Fire Fighters of Alabama (PFFA) has successfully worked to increase retirement benefits for members. Legislation passed last year allows employers to give Tier II employees Tier 1 benefits (the more lucrative of the two). Of the 40 PFFA municipalities eligible to make this change, 25 of these cities have adopted the resolution so far. One of the casualties of the 2008 recession was the Retirement Systems of Alabama's investments. This resulted in an increase to the overall unfunded liability. In 2012, lawmakers passed a plan to create a Tier II in the retirement system for employees hired after 2013. Under the new tier, fire fighters had to work 36 years to match the benefits they would have received after only 25 years under Tier 1. After several years of lobbying and a public information campaign by the PFFA, the state legislature passed Act 2019-132 allowing local employers that participate in the Employees' Retirement System (ERS) to provide Tier I retirement benefits by adopting a resolution to opt in.

## Pandemic's Toll on Public Pension Plans

By Lou Cannon, Real Clear Politics, September 19. 2020

Battered by the coronavirus pandemic and low interest rates, public pension plans are headed for a record shortfall, posing risks to the living standards of millions of employees and retirees. Although pension investments have recovered from a March low point as equity markets rebounded during the summer, they're likely to fall short of their 2020 targets by four to five percentage points, according to an analysis by the Pew Charitable Trusts. The amount of the shortfall is a moving target because three-fourths of pension plan investments are in risky assets such as stocks, private equity or hedge funds in which values change daily. Pew puts the total amount of unfunded liabilities for public pensions at $1.37 billion. The Equable Institute, a New York-based think tank, uses a figure of $1.62 trillion. But it's already clear that the slow but notable progress several states and local governments had made toward full funding of pensions has been disrupted by an assortment of problems triggered by the coronavirus pandemic. Shutdowns induced by the pandemic sharply reduced state and local sales tax revenues. The extension of state income tax filings deprived states of revenues during the 2020 fiscal year, and these revenues have lagged in fiscal 2021 because of increased joblessness and lowered income. But two states, both with pension systems in relatively good condition, bucked the trend by increasing contributions to their retirement plans. They are New York, the early epicenter of the pandemic, and **Florida**, which has also been hard hit by COVID-19. States can upgrade pension plans without reducing benefits for retirees by stress testing, increasing contributions from present employees or improving investment performance. These last two options are probably not feasible until the economy recovers. Better for states to take care of the jobless, hungry and medically needy now and tackle pension reform once the pandemic and the current recession have passed.

## America's Pensions Have Been Shunning Stocks at Their Own Peril

By Gregory Zuckerman and Logan Moore, Wall Street Journal, September 24, 2020

Pension funds and endowments have been shifting away from the U.S. stock market for years. Some are now reconsidering that decision. But pensions have been largely moving away from stocks in recent years, a shift that has hurt performance. The median public pension fund managing at least $1 billion had 46.6% of its portfolio in equities, as of June 30, with just a 21.3% allocation to U.S. equities. By contrast, in 2013, the oldest data available, these funds had invested 52.7% of their portfolios in stocks, with 32.1% in U.S. shares. Unsurprisingly, pensions that have a higher allocation for stocks have been the best performers amid the market rally. Median annual returns for public pensions for the year ended June 30 were 3.2%, according to Wilshire Trust Universe Comparison Service. But the Nevada's Public Employees' Retirement System and **Tampa Firefighters and Police Officers Pension Fund**, both with significant stockholdings, returned about 7%. Nevada's asset allocation is largely centered around broad index funds, such as the S&P 500. Overall, S&P 500 stocks account for nearly 42% of its holdings. The fund's overall public equity allocation is 60%. About 28% of the fund is allocated toward U.S. Treasury bonds. A push into stocks has its own risks. Equity prices are expensive, making some pension and endowment executives wary of dramatic moves in the market. And many remain committed to so-called alternative strategies, like investing in private equity, hedge funds and real estate, which can produce steadier returns. Overall, funds have an allocation of about 13% in private-equity and hedge-fund investments today. But hedge funds have underperformed for several years and some big investors may be tempted to shift away from these investment vehicles, some say.