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Restating some points in a contentious election

PENSIONS & INVESTMENTS | FEBRUARY 6, 2017

Thank you for *P&I*'s Jan. 23 article, "Contenders turning up heat for spot on S.F. fund board," describing the campaign by safety officers to monopolize all three elected seats on our retirement board. Because the article lacked fair balance, I'd like to correct inaccuracies, state key omitted facts, and offer a solution to the underlying cause of contention.

P&I's article stated: "Herb Meiberger ... has opposed hedge funds and other alternative investments." That isn't accurate. Since my tenure began in 1992, I've strongly supported alternative investments in private equity, infrastructure and real assets.

1) Private equity: I have continuously advocated increasing the San Francisco Employees Retirement System's allocation to private equity. These are typically 10-year partnerships with 15% targeted rates of return. General partners invest in portfolio companies where they typically have control. Private equity has been our best performing asset class, earning 11.9% per year for the 10-year period ended Sept. 30, 2016. Those high returns are responsible for SFERS' superb funding.

2) Infrastructure and real assets: These investments have the greatest diversifying effect for securities portfolios, and offer the best protection in bear markets. They're good substitutes for fixed income to enhance returns.

I don't group hedge funds in the same category. Although they typically have the same general 2/20-fee structure, the similarity ends there. Hedge fund managers trade pieces of paper, often with high turnover. Managers don't have control and don't serve on the companies' boards. And hedge funds have much lower expected returns.

P&I stated: “Fire Captain Joseph Driscoll, another board member, signed a letter last summer as a representative of Fire Fighters Local 798, as did representatives of 11 other unions, urging Mr. Meiberger not to run for re-election.”

These are the same unions whose members have advocated in favor of hedge funds. Captain Driscoll and Sergeant Stansbury — both board members — proselytized staff's thesis, repeating the assertion that hedge funds are low risk, believing that standard deviation describes their total risk. This approach failed to consider illiquidity, complexity, poor oversight and regulation. And it also failed to consider hedge fund disasters, such as Long-Term Capital Management in 1998 and Bear Stearns High-Grade Structured Credit Fund in 2008. Both hedge funds ended in bankruptcy, causing disruption to the entire U.S. financial system. Further, there was absolutely no discussion of the parade of divestment from hedge funds by prominent pension fund systems throughout the world.
In their leadership positions on the Board, Captain Driscoll and former board member Police Captain Al Casciato championed a currency overlay hedge fund program in 2005. Staff recommended increasing the allocation to FX Concepts in May 2013, which declared bankruptcy five months later. In its eight years, the program lost $70 million. I am the only board member who consistently voted against continuing that hedge fund program. The board voted unanimously to terminate the program in December 2013.

P&I's article stated “Mr. Ambachtsheer says Mr. Meiberger appears to be overstepping his role as a board member, micromanaging decisions by the investment staff,” and “it's not the board's job to get into the microanalysis of individual investment decisions.” As a fiduciary, my job is precisely to prudently analyze investment decisions beforehand, which duty and homework I take seriously.
I didn't single out any individual investment, and my actions weren't “micromanagement.” Rather, my diligent inquiry is for public disclosure of names and funding amounts of the hedge fund managers, which is the policy for all of our other investments. I respect the will of the majority, but that will to be rightful must be reasonable.

Mr. Ambachtsheer is familiar with Canadian pension funds and their superior governance structure. Canadian pension funds are run like businesses, and have been ahead of the curve with early investments in Chinese A shares as qualified foreign institutional investors, direct investments in infrastructure projects, and staffs throughout the world.

P&I's article mentioned the video “Herb Meiberger, the Obstructionist,” which wrongly claimed “the retirement system missed $37 million in investment gains because Mr. Meiberger voted in May 2016 against investing $400 million of system assets with two China-based asset managers.”

I subsequently performed my due diligence and discussed QFII with other pension funds and endowments, as well as the money managers that staff recommended. Four months later, the board voted unanimously for the $400 million investment. A delay to perform due diligence on a new class of investments is typical and not unreasonable. It's intellectually dishonest to state a “loss in investment gains” for a four-month period on an investment that lacked prudent due diligence for a fund with an infinite time horizon. In March 2014, as chairman of our investment committee, I hosted an educational session on acquiring a QFII allocation to own Chinese A shares directly. Speakers included Mary Spurr, manager, British Columbia Investment Management Corp., which has a QFII allocation.

There was no further discussion about investment in Chinese A shares until SFERS staff's sudden recommendation two years later, when our board was given just five days to make an informed investment decision. That prompted the initial tie vote against the investment.

If “city unions (are) upset with dysfunction on the retirement system board,” as *P&I* reported Captain Casciato as saying, then the only solution is to convert San Francisco's pension system to a 1937 Act county.

In the 1930s and 1940s, individual counties in California established their retirement systems by adopting ordinances. Eventually, 20

California counties adopted such ordinances. Those counties then formed the State Association of County Retirement Systems, adopting provisions of the County Employees Retirement Law of 1937.
That law requires that management of each of the 20 county retirement systems must consist of at least nine board members — stipulating election of two “general” (“miscellaneous”), one “public safety” (active police or fire), and one retiree. The relevant constituencies elect each respective board member. The county board of supervisors appoints four members and the county treasurer serves as an “ex officio.” All members serve three-year terms. In addition, there are provisions for “alternate” members, providing for succession planning.

The City and County of San Francisco was ahead of its time when it established our employees' pension system in 1932. The governing body comprises three elected and four appointed board members. The mayor appoints three members, and a member of the Board of Supervisors serves ex officio. In San Francisco, there are no designated seats for active miscellaneous, active safety, or retired members. Active and retired employees jointly vote for all three elected board members.

P&I's article cited “frequent disputes between Mr. Meiberger ... and fellow board members and investment staff are a key reason why the pension fund hired Funston Advisory Services LLC to evaluate the board's governance procedures.” The best use of resources would be to study conversion to become a 1937 Act county. Board members should be elected by their respective constituencies, and one group should not dominate or monopolize the governing body, conforming to best-practice policies of all democratic forms of government.
San Francisco was ahead of its time establishing its pension fund. Now, San Franciscans must adapt and convert its pension governance structure as a 1937 Act county, and conform to best practices of other California public pension systems.

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This article originally appeared in the February 6, 2017 print issue as, "Restating some points in a contentious election".