



## **Trustee Leadership Forum for Retirement Security Convening in Columbus, OH**

August 19, 2012

On August 19th, the Trustee Leadership Forum for Retirement Security (TLF), a project of the Initiative for Responsible Investment at Harvard University, convened a meeting of Ohio pension fund trustees to explore the challenges they face in the current environment. As attendees made clear, the challenges are acute. Attacks on Ohio pension funds and retirement security have been a significant source of conflict for fund trustees, most prominently in the debate and conflict surrounding the attempted passage of Senate Bill 5, legislation designed to limit collective bargaining tactics including strikes and binding arbitration.

In part driven by recent events, interest among Ohio trustees in more formal mechanisms to share their experiences and explore strategies and tactics in pension stewardship is particularly high. At this event, 14 trustees and six members of board staff, in addition to five attendees from the TLF, spent an entire Sunday on this topic of trustee leadership. Attendees ranged from trustees with less than one year of experience to one who had served almost three decades. The focus of the discussion remained on the ways in which trustees can work more closely together in a changing political and economic environment.

The meeting began with a general discussion of trustees' motives for attending. Some felt the education they had received through trustee training events was inadequate and painted an unrealistic portrait of the current economic landscape and market functions, and were looking for different venues that addressed the current environment. Others highlighted the benefits of open dialogue with other trustees and staff in a small trustee-centric forum, removed from the "cult of expertise" and with nobody pitching products and services. Still others highlighted their need to level the playing field across fund sizes and types, by building networks that allowed trustees to share information about and attitudes towards stewardship collaboratively.

The brief note summarizes the day's conversation.

Trustees shared common concerns that ranged from rising fees for services to broader issues such as the squeeze on pensions and the public good in the current economic environment. They placed their concerns about retirement security within the broad frame of the financial crisis, rising income inequality, and the loss of quality jobs and job security in recent years. The conversation revolved around topics including fiduciary duty, fees, investments and transparency, asset allocation, manager selection, and the legal differences between public and private plans.

A number of trustees stressed their frustration in working in a vacuum, and emphasized the need for common messages and communication routes.



## **Ohio: Political and Economic Landscape-Implications for Pension Fund Trustees**

The financial crisis of 2008 has affected areas of the United States differently. Ohio had an unemployment rate of 7.2% in July 2012, and the wake of the weakened economic situation naturally affects fund health. It also has helped foment ideological attacks on defined benefit pension plans – often from those who have used the crisis as a vehicle for longstanding opposition to these plans. In general, trustees outlined a defensive posture, and the anxieties of the present moment.

Within this context of conflict, trustees did highlight the story of a Hugo Boss factory remaining open in Brooklyn, OH partially due to the collective work of board trustees and union workers, highlighting potential opportunities where pension funds can engage with workers and workers rights directly. The following is a synopsis provided by an attendee involved:

Brooklyn, Ohio is home to the Hugo Boss factory, one of the last clothing manufacturer's in the US. The company was scheduled to close in April 2009 and it would have resulted in the loss of nearly 400 jobs. The workers are members of the Workers United union and they were determined to keep the factory from closing and retaining their jobs. After conducting research, it was discovered that one of the Ohio pension funds, OPERS, was an investor with the private equity firm and more specifically the fund that owned the company. We arranged for the Workers United members to address the OPERS Board of Trustees at their monthly meeting and encourage them to reach out to Permira and ask them to reconsider closing the factory. This resulted in OPERS communicating with Permira and expressing their concerns about the performance of the fund and how it had not met expectations. It went on to encourage Permira to explore other alternatives to closing the factory. This communication allowed for other limited partners in the fund to weigh in expressing their concerns on Permira's decision to close the facility. In late April 2009, while the factory was all but shut down, the Workers United members and Hugo Boss came to an agreement that resulted in reopening of the Hugo Boss factory.

For many, the Hugo Boss case resonated closely to their work within their fund as it called to attention the fact that trustees must understand the relationship of their funds to the overall economy and the role that their funds play within such.



## What does Ohio need?

Since the financial crisis in 2008, there has been a growing interest in pension fund governance and investment strategy – with heightened attention from trustees combined with broader public awareness. The shift in public focus has put a spotlight on the trustees of these funds. Gathering greater insight into pension fund culture and practice through interviews and convening series, the TLF works towards a model of trustee leadership development that fosters more effective stewardship of pension funds in service of their beneficiaries. In Ohio, trustees began a discussion of how this sort of work can be applied to their particular situations, and how a trustee network might help develop a broadly disseminated vision of the role that trustees currently play and can see themselves playing by addressing specific roadblocks trustees encounter when making responsible investment decisions and potential solutions to these conflicts.

Attendees more than once highlighted the need for a decisive change in public narrative about pension funds, as that narrative itself can work against the long-term goal of retirement security. In particular, attendees focused on the need for public discussion around the need for healthcare and pensions as broad efforts to promote retirement security, to combat potential resentment from those whose retirements have been threatened by the loss of pensions or the casualization of labor. Common misperceptions about pension plan funding, and the public costs of pensions, add to the political turmoil in which trustees must make their decisions.

Attendees also focused on the need to challenge conventional wisdom internally. In the wake of the crisis, trustees are looking for best practices in reviewing investment strategies, and also for those hard questions that need to be asked of conventional investment practices. One topic that emerged in the discussion was the skepticism around modern portfolio theory that surfaced after the financial crisis and market failures of 2007-9. Similar attention was paid to the increasing skepticism around private equity as an asset class, heightened by electoral season attention. How can trustees determine if the private equity funds in which they invest create real growth or use excessive leverage, high fees and tax arbitrage that harm investment portfolios and the companies in them?

These particular topics led to a general discussion about the dangers of herding in institutional investment – and what seemed to be a “lemming standard” that drives asset allocation decisions in ways that can create rather than manage risk. Trustees tied this to a “Wall Street narrative,” shorthand for conventional investment frameworks that may disadvantage the long-term needs of asset owners in favor of asset managers. More research into how trustees can play a more powerful role in asserting long-term time horizons and the needs of beneficiaries across the chain of agents who implement investment strategies seemed particularly important in the discussion.

## *Trustee Questionnaire*

A survey comprised of three questions was distributed during lunch with 6 break out groups discussing and answering the questions amongst themselves. The following is a summation of these responses.

### **Question 1: What would you say is your biggest issue you face as a trustee? What specific challenges do you feel you face as a trustee?**

- No unified agenda amongst the board
- Statutory restrictions on CMTE structure
- Staff resistance
- Benchmark v. actuarial assumptions
- Intergenerational equity (specifically with regards to healthcare)
- Member education-what their pension fund actually does for them
- Asymmetry of information between decisions and information given to beneficiaries
- Viewing pensions through personal v. global lens (pre-conceived notions from members)
- Lack of alternatives to MPT
- Taft-Hartley: Actuarial assumptions and PPA
- Taft-Hartley: Defining terms (What is risk?)
- Difference between public and private
- Systemic Risk and Volatility
- Member education on why DB is better than DC (pension seminars, state travel, SERS newsletter, social media, branding)
- Getting full information from service providers (investment)
- Unfriendly appointees and elected
- Responding to political and ideological attacks
- Explaining where money comes from and what is the average benefit
- Responding to group and ideological attacks

**Question 2: What research and networks do you find valuable in your work as a trustee? What research and networks could aid your work as a trustee?**

- Research: alternatives to MPT, legal structure of fiduciary duty
- TLF to hold sessions at mainstream trustee training events (i.e. International Foundation)
- Communication from local and national unions
- Toolkits for trustees: Private Equity, Fees, Infrastructure-investing in the real economy, etc.

**Question 3: What would be the best platform for remaining in contact with other trustees to discuss issues and developments as they progress in between meetings?**

- Quarterly meetings
- Deep dives on issues
- Having a structure/strategic plan
- Greater outreach
- Opportunities for shareholder activism (proactive v. reactive)
- Infrastructure
- Get more labor trustees
- LinkedIn or Google groups
- Monthly video conferencing
- Addressing big picture issues (e.g. income inequality)

**Overall Feedback:**

- Nice to be in a group of trustees
- Awesome to have Public and TH together
- Academics with love of labor
- Educational piece achieved
- AFL convention endorsing public/private pension fund collaboration



## **Next Steps for the development of an Ohio Trustee Network**

While the trustee network in Ohio is still very much in the early phases of development, we have made great progress at this meeting and have collected a great deal of helpful information going forward. At present, we are working towards a second convening in February of 2013, the development of a website, and other opportunities to stay in contact in the interim. Your continued engagement and communication with the TLF staff and each other is what drives the creation of these networks and we are excited to continue facilitating such.