

My Turn: Republic manipulated findings on pension investments

Jared Smout, AZ I See It 5:58 p.m. MT May 1, 2017

Pension administrator: The Republic opted for a false, destructive narrative of Arizona's public safety pension system.

After years of tilted coverage and unproductive exchanges with *The Arizona Republic* that always leaves me scratching my head, I am grateful for the opportunity to speak up on behalf of PSPRS, the state's public safety pension system, without having my words cut short or misconstrued.

Recently, *The Republic* misused a [report by the Pew Charitable Trusts](#) to say that the Public Safety Personnel Retirement System is among the "worst" in the country. I don't seek to dispute findings that our investment returns were low during the annualized 10-year period that ended in 2015. What I take issue with is *The Republic* deliberately misrepresenting the facts and intent of the report.

For starters, the report did not purport to rank or evaluate pension funds. In fact, the very premise of the report was that evaluating and comparing pensions has grown difficult due to [the increasing use of alternative investments](#) and the lack of standards for reporting investment fees.

Report findings were disregarded

A full one-third of the 73 pensions examined didn't even bother to report their fees. Not only did *The Republic* ignore the major conclusion – that a fee reporting standard is necessary – it disregarded, minimized or manipulated just about every other report finding and piece of information provided by PSPRS in response.

Case in point, *The Republic*'s editorial comment that Pew "highlights" the "very clear pattern" that pension funds investing in alternative assets (as PSPRS does) "suffer from historically low returns" is not only characteristically misleading, but is blatantly false. [The report](#), page 23 to be exact, found "no clear relationship exists" between alternative investments and total fund performance.

Instead, Pew noted that there are examples of "top-performing funds with long-standing alternative investment programs," and even cited research that found pension funds with "significant holdings" in alternative assets outperformed those that did not over 20-year time frames.

Legitimate reasons funds underperformed

The Republic further ignored that Pew reported “funds with recent and rapid entries into alternative markets were among those with the weakest 10-year yields,” which “does not necessarily demonstrate causation.”

A closer inspection of the report reveals: “The timing of changes in asset allocation – in many cases executed during the Great Recession – likely played a role in the comparative underperformance” and that a longer time horizon may be needed for appropriate evaluation and comparison.

That is exactly what happened to PSPRS and what we are doing – evaluating and adjusting over a longer time horizon our investment strategies borne of the dot-com crash and the Great Recession.

We have been very patient and helpful to *The Republic*. In October 2015, we spent hours painstakingly detailing all of our investment fees for more than 200 alternative investments, walking *The Republic* through the life cycle of these assets and the whole investment management fee process.

It revealed that we actually get those fees back in subsequent years, most often with interest, and that PSPRS spent less than half the industry norms on these fees.

Savings on fees, costs went unreported

This research, along with Arizona auditor general findings that PSPRS saved tens of millions of dollars on investment fees by negotiating lower prices, went unreported in favor of a more destructive narrative based on statistics pulled from the Pew report that even the report’s authors warn are unreliable and unfit for comparing pensions.

Our fund is operating as it was designed to do. We’re taking less risk, our performance and peer rankings are dramatically improving and we put all of our results – good or bad – on full display for anybody to see.

Great things are happening at PSPRS as we leave the past behind and move forward. We invite you to join us.

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