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LOUISIANA TEACHER RETIREMENT SYSTEM LOSES \$56 MILLION IN NETASSETS OVER LAST TEN YEARS BUT THE REAL-DOLLAR LOSS IS MUCH GREATER

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Net asset holdings of the Teacher Retirement System of Louisiana amounted to \$11.250 billion at the end of FY2009. At the beginning of FY2000 TRSL holdings totaled \$11.306 billion, making for a nominal-dollar loss over this period of \$55.687million. Adjusting for the effects of inflation converts the 2000 holdings to \$14.551 billion in 2009 dollars and results in a real-dollar loss of \$3.301 billion over the last ten years. Unfunded actuarial accrued liability in nominal dollars climbed from \$3.228 billion in 2000 to \$9.339 billion in 2009.

Unless other indicated, all TRSL information is taken from the annual reports (2003-2009) posted on its website and is based on TRSL's fiscal year (July 1 to June 30). Information for 2010 will not be available until November.

In 2009 TRSL engaged 47 professional consulting organizations on financial matters, including JPMorgan Chase, ING Investment Management America, Bear Stearns Asset Management, Prudential Real Estate Investors, UBS Global Asset Management, and BNY Mellon. None of these 47 organizations are headquartered in Louisiana. Over this ten-year period, TRSL advisors were paid a total of \$263.6 million.

In 2003-2004 TRSL adopted an aggressive investment strategy designed to yield returns of 14 to 20 percent over a 10- to 12-year period. This strategy involved investing in asset/liability based derivatives including collateralized mortgage obligations (forms of mortgage-backed securities), options on futures, forward foreign exchange contracts, and futures. These derivatives were held in order to maximize yields and in part to hedge against a rise in interest rates. Initial commitments as of June 30, 2004 and at June 30, 2003 totaled \$4.375 billion. At that time, the TRSL trustees gave their investment advisors a real return objective of 3.9 percent above the Consumer Price Index.

Had TRSL pursued a much less aggressive investment strategy that yielded an annual return of 7 percent over the 2000-2009 period, the System portfolio would have doubled in nominal dollars from \$11.306 billion in 2000 to \$22.612 billion in 2009.

The aggressive investment strategy produced a ten-year high rate of return of + 19.7 percent in 2007 and a ten-year low of - 22.3 percent in 2009. Like many other individual and institutional investors, TRSL trustees learned a very harsh lesson in 2009. No one, including the most highly paid professional investment managers, can reliably pick winners year in and year out.

Looking back we can see clearly some very unwise investment holdings in 2003: 1,065,094 shares of Citigroup, 433,766 shares of AIG which grew to 557,223 shares in 2006, and \$7,594,297 (par value) of Countrywide Funding bonds. Countrywide Funding, one of the main subsidiaries of Countrywide Financial, provided home loans, refinancing, home equity lines of credit and other financial products directly to consumers, real estate agents, and builders. Later on it was re-named Countrywide Home Loans. Countrywide was rescued by Bank of America in 2007 and bought outright by BofA in early 2008.

In addition, TRSL in 2003 held 582,220 shares of Fannie Mae and 395,700 shares of Freddie Mac. Today, having sustained billions in losses tied to sub-prime mortgages, both companies are under federal government conservatorship.

These investments in effect made TRSL a participant in the sub-prime mortgage debacle and financial meltdown in 2008.

Recently, Republican Congressman Issa of the House Committee on Oversight and Government Reform disclosed that 153 employees of Fannie Mae in the past received VIP loans from Countrywide Financial for what Issa suspects might have been preferential treatment on lower guarantee fees for mortgages Countrywide sold to Fannie Mae.

Our investigation might have been more complete had TRSL not reduced the amount of information published in its annual report. To illustrate, in its 2003 report TRSL listed its 25 largest common stock holdings. In its 2009 report TRSL reduced that list to its 10 largest common stock holdings.

It appears that TRSL not only made some unwise investments but also was duped by one of its brokers. The Stanford Group appears on the list of TRSL brokers in 2006 through 2009. The Stanford Group was a network of companies providing a range of financial services and products. One of its companies, Stanford Trust Company, was domiciled in Baton Rouge. Stanford Trust helped manage and protect wealth for individuals, families, and businesses and nonprofit organizations, and assisted in the creation of charitable trusts, foundations and endowments for institutions.

The Stanford Group was shut down by federal regulators in early 2009 on charges of operating a “massive ongoing fraud” involving upwards of \$8 billion in high-yielding certificates of deposit.

JP Morgan Chase has been a TRSL’s investment advisor since 2006. At the same time, the TRSL investment portfolio has included shares of JP Morgan Chase common stock in its

holdings. In 2009, for example, TRSL held 907,616 shares. In 2006 and 2007 the portfolio held more than 1,000,000 shares of JP Morgan Chase common stock. Did TRSL legal consultants of whom five are listed in 2009 sign off on the legality of this dual partnership with JP Morgan Chase? And if they did, does this partnership pass the ethics test?

The TRSL portfolio includes \$59,453,967 in Blackstone Real Estate Partners and \$14,602,547 in Blackstone Mezzanine Partners. These holdings are traced to Blackstone Group which has a substantial placement-agent business. A placement agent is a middleman who is paid a fee by an investment firm or a hedge fund to find large institutional investors such as pension funds. This scheme which is known as “pay-to-play” imposes costs on retired teachers, firefighters, other government employees, and taxpayers according to the SEC chairperson. In June the SEC in a unanimous decision barred investment advisors who want to manage public pension funds from donating to politicians who oversee those funds. Does the TRSL partnership with Blackstone pass the ethics test?

Five weeks ago, Mayo Research Institute asked TRSL for information regarding its current holdings of Fannie Mae, Freddie Mac, AIG, and Citigroup. In addition, MRI asked if TRSL sustained any losses associated with its Countrywide holdings and with funds it placed under management by Stanford Group. To date, TRSL has not responded.

One important lesson for the roughly 150,000 persons whose retirement is tied to TRSL. Pay more attention to the annual report and annual election of trustees. As for the trustees, Nicole Gelinas’ *After the Fall* – a very readable analysis of the origins of the 2008 financial meltdown - - should be required reading. As a wise, old horse handler in northeast Louisiana likes to remind an owner who is having trouble getting her horse to back out of a trailer “you got to be smarter than the horse.”

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