



Weekly Clips, January 5, 2018
Texas Pension Review Board
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PRB PLANS

City of Houston to bond buyers: All is well despite lawsuit

December 29, 2017, By Steve Miller

The city of Houston assures buyers of its new bond issuance that despite a lawsuit challenging the validity of the Nov. 7 election approving the sale of \$1 billion in pension bonds, “the bonds are valid and incontestable under Texas law.”

The confident assurance to potential buyers is made as part of the official disclosure for the bond sale. Most important in terms of disclosure are that of the action filed earlier this month by former city housing department director James Noteware, alleging the city used misleading ballot language.

Texas Monitor

Bikes, bonds and big plans: 6 things to watch at Dallas City Hall in 2018

January 1, 2018, By Tristan Hallman

After a year in crisis mode and a spring of tense negotiations in Austin, will 2018 be a quieter year for the beleaguered Dallas Police and Fire Pension System?

"I hope so," said Executive Director Kelly Gottschalk, who was at the center of the struggle.

But the legislation to save the pension was not a cure-all, and now pension leaders have to chip their way back to solvency. The next year will be the first in a long journey ahead. Dozens more pension-related retirements could be coming in January for police and firefighters because of the changes to the pension.

Dallas Morning News

Houston Issues \$1 Billion in Pension Obligation Bonds

January 3, 2018, By Michael Katz

The city of Houston has issued \$1.01 billion in pension obligation bonds toward its pension reform package, known as the Houston Pension Solution, which will immediately reduce the city's \$8.2 billion in unfunded liabilities through future benefit reductions.

With the bond issuance, “the city upholds its promises to its pension systems and residents, and drastically improves its financial trajectory,” said Houston City Controller Chris Brown in a statement. “Houston residents can rest easier today knowing that meaningful pension reform is finally in place.”

Chief Investment Officer

TEXAS ECONOMIC INDICATORS

Dallas Fed: Texas factory output spikes to 11-year high in December

December 26, 2017, By Dan Zehr

Texas factory production tends to ebb and flow from one month to the next, but overall output surged throughout 2017 and in December reached its highest point in more than 11 years, according to a new report from the Federal Reserve Bank of Dallas.

The state production index, a key measure of factory activity statewide, jumped to a reading of 32.8 in December from 15.1 the prior month, according to the monthly Texas Manufacturing Outlook Survey.

Austin-American Statesman

North Texas net office leasing grew by 38 percent in 2017

January 3, 2018, By Steve Brown

A surge in fourth-quarter leasing made Dallas-Fort Worth the top office market in the country for 2017. Expanding and relocating companies net-leased almost 4.7 million square feet of North Texas office space in 2017, according to a just-released study by commercial real estate firm Cushman & Wakefield Inc.

Last year's net office leasing — or absorption — was more than 38 percent ahead of the 2.9 million square feet of local office space businesses occupied in 2016. D-FW office demand was more than twice the 10-year average last year.

Dallas Morning News

Nearly 24,000 Texas state employees quit in 2017, report finds

January 4, 2018, By Jackie Wang

AUSTIN — Almost 24,000 state employees voluntarily left their jobs in 2017, according to a report from the Texas State Auditor's Office.

In 2017, 18.6 percent of state employees left their jobs, the highest rate since George W. Bush was governor. After retirement, exit surveys conducted by state agencies showed that the biggest reason state employees quit was to find better compensation and benefits elsewhere. The auditor's office found that the lower the pay, the more likely employees quit in 2017.

Dallas Morning News

Surging Texas tax collections brighten state's gloomy fiscal outlook

January 5, 2018, By Robert T. Garrett

Surprising recent strength in the Texas economy has eased if not eliminated concern that next year's budget-writing task for state lawmakers will be awful. With one-sixth of the new two-year cycle behind them, officials are seeing big gains in collections of the state's revenue workhorse, the 6 1/4-cent sales tax.

A combination of higher oil prices, strong retail sales before Christmas and a spurt of construction activity along the hurricane-damaged Texas Gulf Coast has raised the enticing possibility that sales tax revenue could grow this year nearly twice as much as expected.

Dallas Morning News

LEGAL PROCEEDINGS, LAWS & REGULATIONS

KKR, Blackstone sued by Lerach group over fund sales pensions

December 27, 2017, By Bloomberg Staff

KKR & Co., Blackstone Group LP and their founders are accused of failing to deliver hedge fund returns as advertised, in a Kentucky lawsuit that could preview new legal challenges for managers of alternative investments.

The lawsuit was filed on behalf of state taxpayers and the \$12.1 billion Kentucky Retirement Systems' pension plans by a group whose lawyers are advised by William Lerach, who once sent shivers through corporate boardrooms for his rapid-fire filing of securities class actions.

The plaintiffs, including a retired state trooper and a firefighter, allege that the big asset managers misrepresented expensive and risky "black-box" bundles of hedge funds as safe ways to generate high returns. Instead, those investments contributed to the pension system's virtual insolvency, the plaintiffs said, while the managers pocketed excessive fees.

Pensions & Investments

Tax Reform and Investment Management: Initial Observations

December 29, 2017, By Virginia Leggett Stevenson, Won-Han Cheng, Charles Purcell, Adam Tejada, Elizabeth Crouse, Abigail Williams

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (the "Act"). While the Act will impact many types of taxpayers, some of the more significant changes are relevant to private funds, investment advisers, mutual funds, and others in the investment management industry. We have highlighted various of those provisions below. In addition, other provisions of the Act will impact investors, such as revisions to the rules for Section[1] 529 plans (to allow \$10,000 per year per beneficiary to be used for pre-college education) and to the rules for Individual Retirement Accounts, which may affect investor demand and behavior.

For calendar year taxpayers, most, but not all, of the provisions of the Act become effective for taxable years beginning on or after January 1, 2018. Many, but not all, of the provisions of the Act sunset after December 31, 2025.

National Law Review

Tax Reform Results in Only Minor Changes for Retirement Plans

January 3, 2018, By Sarah Engle and Jeffrey Holdvogt

The Tax Cuts and Jobs Act (the Act), which was signed into law on December 22, 2017, represents the most sweeping overhaul of the tax code in decades and will have a significant impact on businesses and individual taxpayers. However, there are no major changes to the structure, type or amount of benefits that may be provided by employers through their tax-qualified retirement plans under the new law. Early proposals suggested that Congress might attempt to significantly reduce the limit on employee pre-tax deferrals to employer-sponsored plans, but the Act does not reduce contribution, benefit or compensation limits in 401(k) plans, does not cap wages on pre-tax catch-up contributions, and does not change the rules for pre-tax contributions to 403(b) and 457(b) plans.

National Law Review

Michael Cohen, former Och-Ziff executive, charged with fraud by U.S.

January 3, 2018, By Bloomberg Staff

Michael Cohen, a former head of the European operations of Och-Ziff Capital Management Group, was charged with fraud related to the hedge fund firm's investments in Africa, according to an indictment made public Wednesday in New York.

Mr. Cohen, of London, is charged with 10 counts including conspiracy to commit investment adviser fraud, conspiracy to commit wire fraud and conspiracy to obstruct justice and making false statements.

It's the latest turn in U.S. investigations that have spanned at least five years. The inquiries into misconduct in the Democratic Republic of Congo, Libya and other African countries bedeviled the world's largest hedge fund for years, causing investors to pull assets and prompting defections of personnel.

Pensions & Investments

2017 Year in Review: Securities Litigation and Regulation

January 4, 2018, By Jodi Avergun, Aaron Buchman, Nathan Bull, Kyle DeYoung, Jason Halper and Adam Magid

The securities litigation and regulatory landscape in 2017 defies simple categorization. Plaintiffs filed 226 new federal class actions in the first half of 2017, more than double the average rate over the last 20 years,¹ and an additional 99 federal class actions in the third quarter of 2017.² In contrast, new SEC enforcement proceedings declined. After staying on pace with the prior two years with 45 new enforcement actions against public company-related defendants in the first half of fiscal year 2017, the SEC filed only 17 new enforcement actions against public company-related defendants in the second half of the year.³ The apparent decrease in initiation of enforcement proceedings coincides with the arrival at the SEC of Chairman Walter J. Clayton, who has expressed the view that enforcement actions against issuers rather than individual wrongdoers too often punish the very investors they seek to protect.⁴

National Law Review

NATIONAL ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

Shifting pension costs from state to teachers costs CT \$20M

December 26, 2017, By Keith M. Phanuef

Legislators decided this fall that teachers would contribute tens of millions of dollars more annually toward their pensions — and state payments would drop by matching amounts.

But according to state Treasurer Denise L. Nappier, that cost shift still came at a price to the state — and the bill is just over \$20 million.

While that cost might seem small, given that Connecticut will pay it off over the better part of two decades, Nappier warned any increase in the state's massive retirement benefit debt sends a dangerous message as Connecticut tries to reverse decades of neglect in this area.

The CT Mirror

U.S. public pension assets rise to \$3.691 trln in 3rd qtr-Census

December 28, 2017, By Reuters Staff

NEW YORK, Dec 28 (Reuters) - Assets of the 100 largest public employee pension systems in the United States rose about 2.8 percent in the third quarter of 2017 to above \$3.691 trillion compared to the last quarter, according to U.S. Census bureau data released on Thursday.

Continuing growth that began in 2015's third quarter, holdings of the nation's top public pension systems jumped 9 percent from \$3.386 trillion the same time the previous year. Governments made up 76.4 percent of the \$44.2 billion in contributions, compared to 70 percent last quarter, while employee contributions comprised the rest.

[Reuters](#)

In 2017, anywhere investors threw money it multiplied

December 29, 2017, By Tom Petrino

Investors weren't challenged to make money in 2017. It was almost impossible to lose it. The trading year that ended Friday was remarkable for the breadth of positive returns. Nearly every major category of investments — including U.S. stocks and bonds, foreign stocks and bonds, real estate and gold — finished the year in the black.

That would be unusual on its own, but was more so because it happened in a year when the Federal Reserve was pushing short-term interest rates up. Rising rates can be poisonous for investments across the board. But not in 2017.

[Los Angeles Times](#)

Will the economy bust out in 2018?

January 1, 2018, By Paul Davidson

The U.S. economy in 2018 may finally unload some of the baggage that has slowed it down since the Great Recession ended in 2009.

Already, economists say, the recovery is beginning to expand to more industries and sweep up more of the Americans left on the sidelines over the past 8 ½ years. Those trends will likely gather force this year, analysts say, while tepid wage gains accelerate.

[USA Today](#)

Pension Fund's Dilemma: What to Buy When Nothing is Cheap?

January 1, 2018, By Heather Gillers

Some public pension funds are adding to traditional allocations of stocks and bonds while both are expensive. Others are loading up on more private-equity or real-estate holdings that are less liquid and sometimes carry high fees.

How much risk to take is a question facing all investors as they enter 2018. "Everything is overvalued," said Wilshire Consulting President Andrew Junkin, who advises public pension funds. "There's no magic option out there." In the public pension world, the willingness to chase expensive assets is the product of the core challenge most funds face—how to fulfill their mounting obligations to workers and retirees.

[Wall Street Journal](#)

Willis Towers Watson: U.S. corporate pension funding increases in 2017

January 2, 2018, By Meghan Kilroy

The average funded status of the largest U.S. corporate pension plans rose an estimated 2 percentage points in 2017 to 83% as of Dec. 31, the highest level since 2013, and up from 81% at the end of 2016, Willis Towers Watson said Tuesday.

"Strong stock market performance throughout the year and robust employer contributions to their pension plans helped to boost funded status to its highest level since 2013 after several stagnant years," said Matthew Siegel, a senior consultant, in a news release. "Several plan sponsors contributed more to their plans last year than originally expected, most likely in response to rising Pension Benefit Guaranty Corp. premiums and growing interest in derisking strategies, and potentially in anticipation of lower future corporate rates from tax reform."

Pensions & Investments

Should Pension Funds Invest in Bitcoin?

January 2, 2018, By Amy Whyte

Bitcoin — the largest electronic currency with a market value of \$253 billion on January 2 according to CoinMarketCap — had a rollercoaster 2017, soaring above \$19,000 per coin before plummeting below \$14,000 in a year-end rout. In December, two U.S. exchanges began trading Bitcoin futures, offering regulated trading options to investors.

According to Liew and Hewlett, the historical returns of Bitcoin have compensated for the "high degree of volatility," yielding a higher Sharpe ratio than any standard asset class. They also found the cryptocurrency to be "surprisingly interesting from a diversification perspective," as it's uncorrelated to other investments.

Institutional Investor

US factory, construction data brighten economic outlook

January 3, 2018, By Lucia Mutikani

WASHINGTON (Reuters) - U.S. factory activity increased more than expected in December, boosted by a surge in new orders growth, in a further sign of strong economic momentum at the end of 2017.

The economy's robust fundamentals were also underscored by other data on Wednesday showing construction spending rising to a record high in November amid broad gains in both private and public outlays. Given the bullish growth outlook, economists expect the Federal Reserve will raise interest rates in March after increasing borrowing costs three times last year.

Reuters

Pension Funds Could Trade Bitcoin Futures Now. Why Aren't They?

January 3, 2018 By Jasmine Ye Han

Two regulated exchanges--the Chicago Board Options Exchange and CME Group--have been trading bitcoin futures since mid-December. Nasdaq says it intends to start trading bitcoin futures in 2018.

Bitcoin futures allow institutional investors to get exposure while avoiding the operational risks in holding bitcoins directly. But it may be some time before defined benefit pension funds adapt to the new asset class because of its volatility, the fiduciary risks, and potential price manipulations.

Bloomberg BNA

New Study by Spectrem Group Reveals that Most Public Pension Fund Members are Unaware That Their Pension is Underfunded and Not Meeting Performance Targets

January 4, 2018, By Markets Insider Staff

Despite record-setting performance among U.S. equities in 2017, a significant number of U.S. public pension funds remain woefully underfunded. A newly released study by Spectrem Group reveals that most members whose retirement in part depends on the performance of their pension fund are unaware of this performance gap and the risk it poses. The study also reveals a broad gap between how members want their funds managed and the actual approach many managers may be taking.

[Markets Insider](#)

Here's How the Winter Deep Freeze Will Affect the U.S. Economy

January 4, 2018 By Jeanna Smialek

The winter storm and chill are hitting before the Department of Labor's reference week for employment data, so the effects probably will have little impact on jobs figures. And because the weather disruption comes just after the winter holidays, the freeze isn't choking off in-store shopping during a crucial season.

Still, unusual temperatures and storms can cause major disruptions if protracted, so all bets are off if the cold snap and snowy weather persist for longer than currently forecast. And even if the deep freeze is short-lived, it could become a convenient scapegoat for any first-quarter economic weakness, which has been chalked up to seasonal-adjustment issues or bad weather in recent years.

[Bloomberg](#)

148,000 Jobs Were Added To U.S. Economy In December

January 5, 2018, By Bill Chapell

The U.S. economy added 148,000 jobs in December, the Labor Department says, issuing the monthly jobs report from the Bureau of Labor Statistics. The unemployment rate was 4.1 percent, unchanged from November.

Analysts had predicted the Labor Department report would show another month of solid job gains. But it's a sharp dropoff from the November result of more than 250,000 jobs.

With the data for December now in, U.S. job growth fell in 2017, to 2.1 million from 2.2 million in 2016. The result narrowly maintains the country's seven-year streak of adding at least 2 million jobs.

[National Public Radio](#)

US trade deficit rises more than expected to a near 6-year high on record imports

January 5, 2018, By Reuters Staff

The U.S. trade deficit increased more than expected in November as imports of goods surged to a record high amid strong domestic demand, making it likely that trade will subtract from economic growth in the fourth quarter.

The Commerce Department said on Friday the trade gap widened 3.2 percent to \$50.5 billion. That was the highest level since January 2012 and followed an upwardly revised \$48.9 billion shortfall in October.

[Reuters](#)

WORLDWIDE ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

China won't cut its debt or fix its industries- but that's OK, says Pimco's Asia guru

December 28, 2017, By Yen Nee Lee

So it was somewhat counter-intuitive when the veteran Pimco portfolio manager told CNBC the country's high level of debt — the main source of concern among investors — isn't primed to go away anytime soon. In fact, he said, borrowings may even increase significantly.

And it's not just debt growth that won't get better in the world's second-largest economy, according to Spajic, who manages the bond giant's Asian credit portfolios and leads the emerging markets portfolio management in Asia — overseeing an estimated \$8.6 billion worth of assets in the region.

CNBC

How does North Korea do business under sanctions?

December 29, 2017, By Staff

It might have been under sanctions for more than a decade, but sometimes North Korea appears to do business like any other country.

Organisers of the Pyongyang Autumn International Trade Fair in September said more than 250 domestic and foreign companies exhibited goods in the North Korean capital.

State media reported on a successful event that saw businesses from Syria, China, Cuba, Iran, Italy, Indonesia, Vietnam and Taiwan attend.

BBC News

A record-breaking year- the global economy in 10 charts

December 30, 2017, By Richard Partington

Global stock markets have roared ahead in 2017, with the MSCI index of bourses in 47 countries up by 22% and almost \$9tn (£6.6tn) according to Reuters. This has been fuelled by a boom in growth among developed nations and Donald Trump's plan to cut US corporate tax rates – which is expected to boost company profits in the world's largest economy and returns to shareholders.

The Guardian

Euro zone factory growth surges to record; more uneven in Asia

January 2, 2018, By Jonathan Cable and Marius Zaharia

Euro zone factories ended 2017 growing at their fastest pace in more than two decades while performance in Asia was more uneven, with its third-largest economy India leading the field and manufacturing giant China unexpectedly resilient.

With a similar business survey covering the United States forecast to be strong, the synchronized global growth that took hold last year looks set to continue based on the first major economic data of 2018.

Reuters

Happy new year- or economic meltdown?

January 3, 2018, By Squire Patton Boggs staff

At the turn of the new year, economists provide their financial predictions akin to the great Nostradamus. They predict a bleak outlook for the UK economy in 2018, but such forecasts are not always accurate.

The continuing uncertainty of the Brexit negotiations is likely greatly to affect the prospects of any improvement in the UK economy in 2018. Respondents to the Financial Times annual survey of economists ("FT Survey") also cited as concerns for the UK economy high levels of debt amongst consumers and fears of a downturn in UK trade productivity in comparison to the upturn in the rest of the world.

National Law Review

Euro zone economy's growth best in nearly seven years, PMIs suggest

January 4, 2018, By Reuters Staff

The euro zone economy closed out the year with the strongest growth in nearly seven years, driven by accelerating services and manufacturing activity across all major economies, a survey showed on Thursday.

The news will put pressure on the European Central Bank to close out its aggressive stimulus this year, and coincides with the central bank's decision to halve its monthly bond purchases to 30 billion euros starting this month.

CNBC

Turkey's economy is one of the world's fastest-growing

January 4, 2018, By Staff

Turkey's economy is doing surprisingly well. In the third quarter of 2017 GDP surged by 11.1% year-on-year, outperforming all major countries. This is partly because Turkey did so badly in the same period in 2016, when the economy shrank by 0.8% after a failed coup. But it owes more to a wave of easy credit that has washed over the country, helping thousands of companies cope with the effects of a sharp drop in tourism, the imposition of emergency law, and a government crackdown that has cost 60,000 people their freedom. Under the recently expanded KGF, the government has provided 221bn lira in loans to small and medium-sized businesses, Mr Taha's included. Tax breaks have helped trigger an increase in household spending, which shot up by 11.7% in the year to the third quarter.

The Economist

Canadian pension fared well in 2017 thanks to strength of stock markets

January 5, 2018, By David Paddon

TORONTO — Defined-benefit pension plans in Canada generally ended 2017 in better financial condition than they've experienced for most of the past decade, according to figures released by Mercer.

The international pension consulting firm's Canadian index of pension health — based on a hypothetical, representative fund — stood at 106 per cent on Dec. 29, up from 102 per cent at the beginning of the year and a dismal 70 per cent after the 2008-09 financial crisis.

The Record

How Do Banks Work in Asia?

January 5, 2018, By Peter Pham

Large corporations that want to raise funds to grow will have capital markets as their first choice. But this method is only possible in countries that have well-developed financial systems. For countries with less-than-advanced capital markets, usually the only viable option to obtain funds is via large state-controlled banks.

While Asian banking institutions are trying to provide loans to corporates, people are becoming more worried about the amount of bad debt that these banks are incurring.

Forbes

Asia Currency to pare 2017 gains but growth to cushion them: Poll

January 5, 2018, By Reuters Staff

Asian currencies are set to pare gains this year that they made in 2017 as the Federal Reserve raises interest rates further and Asian central banks proceed cautiously, cushioned by solid growth expectations, a Reuters poll showed.

After four years of depreciation, Asia FX bounced back in 2017 owing in part to a rebound in exports, a synchronized global economy, and investors reaching again for more risk.

The Economic Times

Canada's Trade Deficit Unexpectedly Widens on Auto Sector Bounce

January 5, 2018, By Theophilos Argitis

Canada's trade deficit unexpectedly widened in November, as a restart of some auto production fueled imports. The higher deficit masked a gain in exports.

Imports surged 5.8 percent in November, the biggest increase since July 2009. The increase in shipments widened the deficit to C\$2.5 billion from C\$1.6 billion a month earlier, Statistics Canada said Friday.

Bloomberg

Global debt: Why has it hit an all-time high? And how worried should be we about it?

January 5, 2018, By Ben Chu

Global debt hit an all-time high of \$233 trillion (£169 trillion) in the third quarter of 2017, according to the Institute of International Finance (IIF).

That's a \$16 trillion increase on debt levels at the end of 2016 and more than three times the size of the global economy.

Who has all this debt? Who is it owed to? What does this level of indebtedness mean? And how worried should we be about it?

The Independent

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