TEXAS PENSION PLANS

Fort Worth is proposing a tax cut. Why a $1.6 billion pension fix could mess it up

August 7, 2018, By Bill Hanna

The city is proposing dropping the property tax rate by 2 cents in this year's budget. The cut is needed, said City Manager David Cooke, to compete with other cities in attracting new businesses. But sticking to that 2-cent tax cut won't be easy while trying to fix the Fort Worth Employees' Retirement Fund. If nothing is done to fix the city's $1.6 billion projected shortfall, the retirement fund could run out of money by 2048, Cooke said.

The city manager's proposal would add about $48 million to the fund through increased contributions from the city and employees and changes to eligibility and benefits.

The city would kick in another 3 percent (nearly $14 million) to the retirement fund with employees upping their contributions by 2.3 percent (roughly $10.3 million.) Employees' contributions would be based on whether they were hired before or after 2011, the last time benefits were changed.

Police and fire would contribute higher amounts under the proposal. Police would also pay more to retain the provision that officers could retire after 25 years of service regardless of their age. For general employees and firefighters, there would be a minimum retirement age of 55.

But the most contentious part of the change — eliminating the cost of living adjustment for many retirees — is already getting strong opposition from employee groups.

The changes to eligibility and retirement benefits would account for about $23 million of the proposed pension fix.

Star-Telegram

Texas Teachers slates $570 million for 7 managers

August 8, 2018, By Christine Williamson

Texas Teacher Retirement System, Austin, committed a total of $570 million to seven private equity and venture capital strategies in July, a transaction report from the $151.3 billion pension fund showed.

All of the commitments were to existing TRS managers. The largest commitment, at $200 million, went to Baring Private Equity Asia's latest Asia-focused midsized buyout fund — Baring Asia Private Equity Fund VII.

The pension fund also committed $100 million each to:

Insight Venture Partners X, a venture capital fund focused on investment in U.S. internet and software companies.

Oaktree Avalon Co-Investment Fund II, a U.S.-based, single deal special situations credit fund managed by Oaktree Capital Management (OAK).

EQT VIII Co-Investment, which will seek investment in companies in diversified industries in the Nordic region.

SLP Zephyr Investors received a $30 commitment for investment in large-company buyout opportunities globally in diversified industries. Silver Lake is the fund's manager.

Texas Teachers' investment officers also committed $25 million to U.S. large-buyout fund H&F Flashdance Partners II, managed by Hellman & Friedman, and $15 million to TA Saffron Holdings, a large-company buyout fund managed by TA Associates focused on finding investment opportunities in emerging markets.

Pensions & Investments

TEXAS ECONOMIC INDICATORS

Quantum Energy Collects $5.6 Billion for Its Latest Fund
August 7, 2018, By Luis Garcia

Quantum Energy Partners has amassed nearly $5.6 billion for a new fund, a record for the private-equity firm as it rapidly pours more money into the oil patch.

The Houston-based energy investor in July closed Quantum Energy Partners VII LP and its affiliate vehicles with $5.575 billion in capital commitments, above its $5.4 billion hard cap, said Wil VanLoh, Quantum's founder and chief executive. The total amount raised includes a $750 million co-investment pool as well as commitments from the general partners, he said.

Quantum began to raise its seventh fund last year and held a $2.6 billion first close in May 2017, WSJ Pro Private Equity previously reported. Houston Municipal Employees Pension System, Nebraska Investment Council and Employees Retirement System of Texas are among the institutions that committed capital to the fund, according to public documents.

Wall Street Journal

NATIONAL PENSION, INVESTMENTS & LEGAL

State Supreme Court sides with union over San Diego pensions
August 6, 2018, By Hazel Bradford

In a win for public employee unions, the California Supreme Court on Thursday said San Diego's mayor should have met with representatives for city workers before the city placed a measure on the 2012 ballot that cut workers' retirement benefits.

The court ruled unanimously that then-San Diego Mayor Jerry Sanders was so involved with the ballot measure that he was obligated to confer with union officials about it. The measure approved by voters — Proposition B — imposed a six-year freeze on pay levels used to determine pension benefits unless a two-thirds majority of the City Council voted to override it. It also put new hires, except for police officers, into 401(k)-style plans.

The court did not invalidate the San Diego ballot measure and undo the cuts approved by voters. Instead, it sent the case back to a lower court to arrive at a solution.

State law requires government officials to confer in good faith with public employee unions about wages and other terms of employment. San Diego argued that the pension measure was sponsored by local residents, so it was exempt from the state requirement.

But the Supreme Court said Sanders used the powers and resources of his office to play a major role in promoting the measure.

Houston Chronicle

Controversy simmering over gauging pension obligations
August 6, 2018, By Hazel Bradford

Debate over the proper way to measure pension obligations is once again in the spotlight, with the Actuarial Standards Board considering yet another way to measure them and a special congressional committee on multiemployer pension plans debating whether current practices control enough for investment risks.

While controversy over the proper way to measure pension obligations has simmered for more than a decade, it came into sharper focus in March, when the Actuarial Standards Board, Washington, proposed revisions to actuarial standards of practice, with a call for public comment by July 31.

The most controversial piece of the proposed revisions to Standard No. 4 — "Measuring Pension Obligations and Determining Pension Plan Costs or Contributions" — is a requirement to calculate and disclose an investment risk defeasement measure when an actuary performs a funding valuation. Nicknamed iridium, the IRDM primarily includes a requirement for a discount rate based on the yield of a fixed-income portfolio, either U.S. Treasury or high-quality corporate bonds. Similar calculations already are being done for accounting and other purposes.

The proposal unleashed a storm of reactions, many of them negative, about how the changes could adversely affect public-sector pension funds in particular, although actuaries for corporate and multiemployer pension plans had plenty to say as well. Other practitioners worry the proposed change will incur costs and additional work, producing numbers that could confuse, rather than clarify, pension plan funding decisions.

[Pensions & Investments]

Surprise: Wells Fargo Stock is Surging

August 6, 2018, By Steve Garmhausen

Wells Fargo's many scandals, and a Federal Reserve-imposed cap on its growth, haven't kept its stock from breaking out.

Off a mid-April low, WFC has gained 17%, the second-best among 24 major U.S. lenders, Bloomberg notes. The Fed six month ago ordered Wells not to grow its assets beyond end-of-2017 levels until it can show it's put consumer abuses an other problems behind it.

It turns out meeting that goal hasn't been a problem, in part because the hit to the bank's reputation has slowed loan demand. Meanwhile, the company has been focusing on higher-yielding credit card business and selling off assets. So far it's disposed of its shareowner services business and its share of money manager the Rock Creek Group. A commercial real estate broker it owns also may go on the block.

Wells has actually been returning money to shareholders, which probably hasn't hurt the stock's performance: In June, it announced a big dividend hike and stock buybacks.

The company's problems over the past two years have ranged from millions of unauthorized accounts to reports of product pushing in its wealth unit. Last week Wells agreed to a fine of more than $2 billion to settle charges involving bad mortgage-backed securities.

[Barron's]