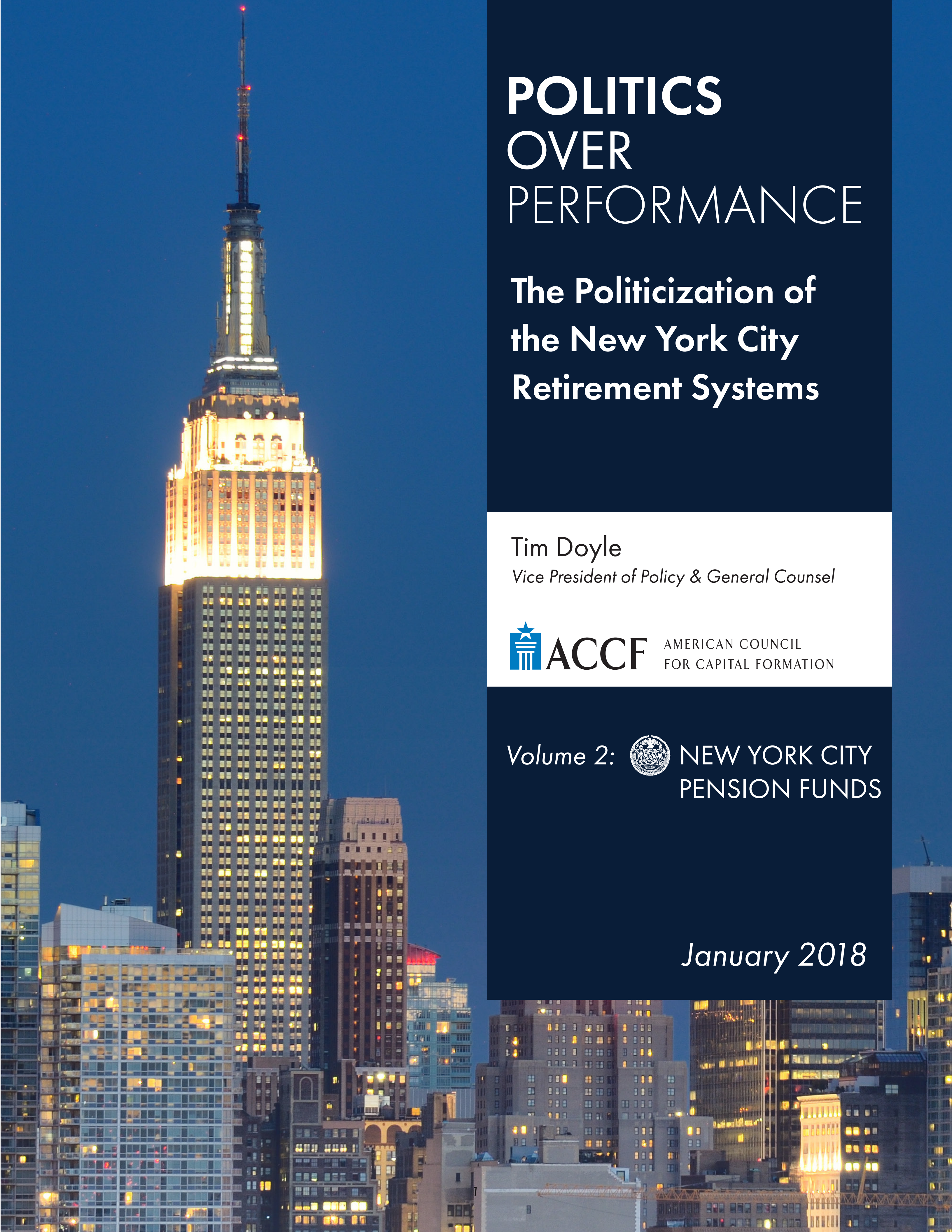

POLITICS OVER PERFORMANCE

The Politicization of the New York City Retirement Systems

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Vice President of Policy & General Counsel

ACCF AMERICAN COUNCIL FOR CAPITAL FORMATION

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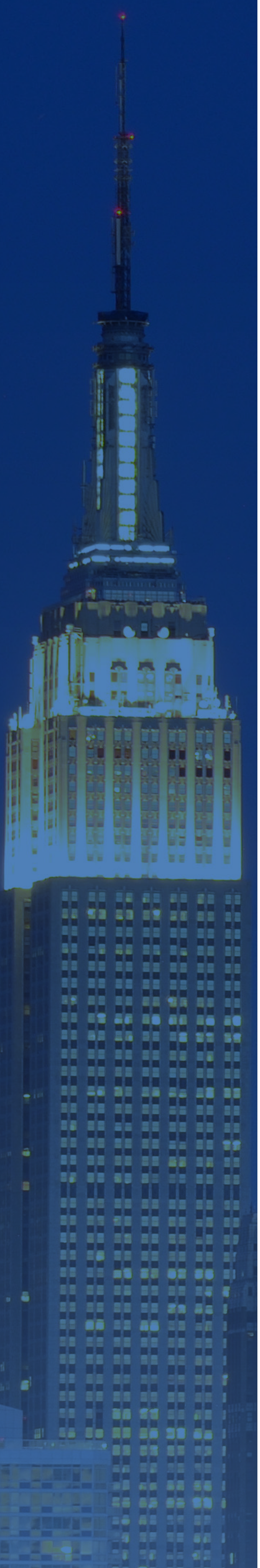
Tim Doyle brings a diverse policy and legal background in multiple areas including energy, environment, science, and technology. Tim manages ACCF's broad portfolio of issue areas including economic, energy, environment, regulatory, tax, technology and trade.

Prior to joining the ACCF, Doyle served as Senior Counsel for the House Science, Space, & Technology Committee and Staff Director for its Oversight Subcommittee. There he successfully managed oversight staff involving multiple investigations. In addition, he established, developed, and maintained strategic relationships at the senior levels in Congress regarding energy policy and its corresponding regulatory framework. Doyle also served as Senior Counsel and Director of Investigations for the House Committee on Natural Resources

Doyle holds a JD from Michigan State University as well as a BA with a dual major in Political Theory & Constitutional Democracy and Criminal Justice. During law school, he clerked for the Department of Justice in Washington D.C. at the U.S. Attorney's Office. He also worked his way through law school at the Senate Majority Policy Office in the Michigan Senate.



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EXECUTIVE SUMMARY

U.S. public pension systems were born in New York City, starting with an 1857 plan to pay police officers injured on the job. Over the next few decades, New York City pension eligibility spread to include firefighters and teachers, and eventually evolved into the current practice of providing beneficiaries with lifetime payments following retirement.

Throughout the 20th century, most state and municipal governments established pension plans – following the lead of the federal government – that employed a mix of employee contributions, taxpayer money and investment appreciation to pay benefits to retired public servants. The same is true today. The problem today is that a combination of program mismanagement, unrealistic performance assumptions, and investment decisions tied more to political considerations than financial ones have caused public pension funds to become underfunded by more than $1 trillion, a liability ultimately borne by taxpayers.

A review of the New York City Pension Funds – a system of five funds with more than $190 billion in total combined assets – provides a telling example of how taxpayers end up paying the price when investment performance reality falls short of investment performance projections. Like several other large public pension systems, the New York City funds have become underfunded by tens of billions of dollars, requiring steep increases in annual payments from already resource-strained cities and municipalities, while both expected and actual investment returns continue to fall relative to key benchmarks.

Instead of focusing on sound fiscal practices that ensure pensioners get the retirement benefits and security they were promised without harming taxpayers or bankrupting municipalities, those who manage many public pension plans have used beneficiaries' assets to advance social or political agendas. These funds have become a leading force in corporate shareholder activism, seeking to sway boardroom decisions on social and environmental policy, and doing so in many cases at the expense of those they are supposed to be serving.

On January 10, 2018, city officials announced that the five pension funds will be taking steps to divest from fossil fuels – another alarming example of prioritizing politics over performance, as economic reports find such a decision could cost billions. With little to no financial evidence, New York City Comptroller Scott Stringer declared, "Safeguarding the retirement of our city's police officers, teachers and firefighters is our top priority, and we believe that their financial future is linked to the sustainability of the planet." New York City Mayor Bill de Blasio announced the same day that he was suing several energy companies – including some of the best performing stocks – for contributing to climate change.

Although environmental issues – including climate change – are legitimate concerns, pension fund managers have a fiduciary duty to prioritize performance. A recent survey from the Spectrem Group found that an overwhelming majority of New York City Retirement System members (66%) wanted managers to focus on maximizing returns and returning the fund to fully funded status (the systems are currently only funded at 62%, well below the national average). Only a "small percentage supported investing in projects that supported political and/or social causes," according to Spectrem.

Such politicization has become more acute under the leadership of comptroller Stringer, a long-time city political figure whose sprawling portfolio includes everything from auditing the performance of city agencies, to marketing municipal bonds, to (arguably most important) directing the outflow and investment allocation of billions of dollars of pensioners' money each year. The consequences? The prioritization of politics over performance has had a deleterious impact on returns, and has contributed to the continued and increasingly severe decline in the overall funded status of the systems. Some of the report's key findings include:

- The funds' weighted average funding ratio stands at just 62 percent, below the national average of 72.2 percent, with the firefighters' and teachers' pensions both well below 60 percent. Estimates of unfunded liabilities range from $65 billion (using the city's conservative actuarial standard) to $142 billion (using actual, real-world market values) as of fiscal 2016. Unfortunately, the same type of poor investment decisions that caused these funds to be underfunded also lead to an attempt to make up the difference by investing in higher risk and higher fee alternative investments, putting taxpayers at even further risk.
- As returns have continued to decline, and the funds' unfunded-liability status has continued to expand, Mr. Stringer has ramped up the funds' focus on matters that on their face have little to do with maximizing performance and generating better, more stable returns. For example, Mr. Stringer submitted 92 separate shareholder proposals to 88 different companies in fiscal year 2017, placing the New York City Retirement Systems on the top-10 list of most prolific sponsors of such resolutions. Additionally, the New York City Retirement Systems was one of the top two pension funds to run solicitation campaigns in support of their proposals in 2017. Very few of these proposals were directly tied to any discernable plan aimed at improving the financial performance of the companies being targeted.
- Significant fund resources have also been increasingly allocated to projects and initiatives that have historically underperformed relative to key benchmarks. For example: 12 percent of the funds' assets ($22 billion) are invested in a group called the "Developed Environmental Activist" asset class – a class that has underperformed the overall funds' returns by an average of 600 basis points over the last three calendar years when full data is available.
- City taxpayers' contributions to the pension funds have climbed steeply – from $1.4 billion in fiscal 2002 to $9.3 billion in fiscal 2017 – as politically motivated investment decisions and poor management have necessitated more taxpayer funding to cover shortfalls. The city will soon be spending more on pension costs than social services (excluding education).

1. INTRODUCTION

New York City comptroller Scott Stringer serves as the leader, investment advisor, custodian, and trustee of the New York City pension funds, a role he assumed in January 2014, and in which he will remain following his recent reelection. The role of the comptroller is no small task: in addition to duties related to the city's budget and fiscal condition, performance and financial audits of all city agencies and review of city contracts, the comptroller oversees a system composed of the New York City Employees' Retirement System (NYCERS), Teachers' Retirement System (TRS), Police Pension Fund, Fire Department Pension Fund and the Board of Education Retirement System (BERS). The comptroller is responsible for managing **more than $190 billion** in assets (roughly the GDP of New Zealand)[1] and the financial performance of the five retirement funds dedicated to supporting the 730,000 active and retired public sector employees of the largest city in the United States.

The funds today stand at an average funded ratio of only 62 percent,[2] all under the national average of 72.2 percent,[3] with the firefighters' and teachers' pensions both well below 60 percent. The NYCERS has not only consistently underperformed the market since 2011, it has also on average underperformed its own benchmark since first being established in 2008. Despite this consistent underperformance, annual fees paid to money managers have grown from $62 million in 2006 to $155 million today – which coincides with the period within which Mr. Stringer has served as a NYCERS board trustee.[4]

New York City acknowledges that its pensions are underfunded, reporting unfunded liabilities of nearly $65 billion in fiscal 2016, using the city's actuarial standard.[5] A report commissioned by the Manhattan Institute this past summer finds the situation is much more severe than that, using market values to estimate the average funded ratio of the five funds at 47 percent and the shortfall at about $142 billion, more than twice the city's estimate.[6] As of fiscal 2016, this represents 17 percent of gross city product, 71 percent more than the city's total bonded indebtedness and 78 percent more than taxes the city was planning to raise in fiscal 2017, according to the Manhattan Institute's estimates.[7]

Over this period of lackluster performance, New York City taxpayers have been forced to pick up the tab, with the city's yearly contribution to the pension funds increasing from $1.4 billion in fiscal 2002 to $9.3 billion in fiscal 2017 -- and $9.6 billion proposed in the city's fiscal 2018 budget. Despite these results, Mr. Stringer and his team have continued to prioritize projects and investments that align with their personal political agendas, often at the expense of generating returns. As of August 2017, 12 percent of the funds' assets were invested in a group called the "Developed Environmental Activist" asset class – a class that has underperformed the overall funds' return by an average of 600 basis points over the last three calendar years full data is available.[8] Yet the city pension funds continue to increase their exposure to this consistently underperforming class. Mr. Stringer's announcement on January 10, 2018, that the city would be divesting of $5 billion in fossil fuel investments only suggests that he is doubling down on politics – and underperformance.[9]

City pension leaders have failed to generate returns sufficient to maintain an adequate funding status

Alternative Measures of New York City Pension Debt (USD, millions)

Plan	Current Actuarial Rate (7%)	1% Decrease in Current Liability Discount Rate (6%)	Market Rate (3.61%)
TRS	25,600	32,714	52,092
PPF	15,638	21,344	37,039
FDPF	8,906	11,203	17,563
NYCERS	13,307	18,246	31,968
BERS	1,384	1,948	3,533
TOTAL	$64,836	$85,454	$142,195

Source: Manhattan Institute for Policy Research (June 2017) needed to pay future promised benefits. Today, taxpayer pension contributions have peaked at a near-record 11 percent of the city's total budget, gobbling up 17 percent of city tax revenues, double the 8.5 percent average proportion in the early 2000s.[10] Meanwhile, the growth in pension benefits, totaling $14.5 billion during fiscal 2017,[11] reflects an increase in the number of beneficiaries as well as benefit enhancements since 2000, and has taken a toll on other city services and left taxpayers with the bill. The city will soon be spending more on pension costs than social services (excluding education) — leaving very little money for much-needed infrastructure improvements and basic city services.

More than 730,000 active and retired New York City public-sector workers rely on steady pension returns.[12] Mr. Stringer states that "hard-working New Yorkers should not be penalized by a system that doesn't adequately address potential conflicts of interests and financial mismanagement."[13] Yet, the office of the comptroller has prioritized politically motivated investment decisions over the consideration of investments that could more adequately provide returns to New York City pensioners. The following report explores in great detail the relative and absolute performance of the funds; how politics has surpassed performance as the dominant focus of the funds' investment strategy; and how fund beneficiaries and taxpayers are the ones who stand to be most severely impacted by these continuing trends.

2. HISTORY OF THE NEW YORK CITY PENSIONS

New York City is considered the birthplace of public pension plans in the United States. The first such plan was created in 1857 for city police officers injured in the line of duty, and was extended to firefighters a few years later.[14] In 1894, the first pension plan for teachers was also established in Manhattan.[15]

Today, the New York City Retirement Systems include five primary pension funds, covering active and retired municipal employees ranging from teachers and firefighters to bus drivers and elected officials. By law, part of the comptroller's responsibilities is to be the custodian of city-held trust funds and the assets of the funds, serving as a trustee on four of them.[16] In this role, the comptroller is delegated to serve as investment advisor by all five pension boards, and the Bureau of Asset Management oversees the investment portfolio for each system and related defined contribution funds. Most funds are allocated to investment managers who then execute the investment directives of the boards of trustees of each of the five funds.[17]

Each of the five funds is financially independent of the others and has its own board of trustees comprised of elected and appointed officials and union representatives. Working with the comptroller's Bureau of Asset Management, the New York City Office of the Actuary and board consultants, these trustees make decisions on the funds' asset allocations based on factors including economic risk, return, performance and beneficiary distributions. Every board includes representatives from the offices of the mayor and comptroller.

PENSION FUNDS STRUGGLE

Over the years, the city's retirement systems have become increasingly complex and faced various challenges. The Manhattan Institute, in its recently commissioned report, describes the funds' status 40 years ago:

> *During the city's fiscal crisis that erupted in the mid-1970s, the pension funds' purchase of $3.5 billion in city Municipal Assistance Corp. (MAC) bonds, as well as general-obligation bonds, was all that stood between the Big Apple and bankruptcy. With the approval of union trustees on the city's five pension system boards, MAC and city bonds ultimately represented 35 percent of the pension funds' total assets—which, at the time, were already well short of the amounts needed to cover future obligations to retirees and beneficiaries.*[18]

In 1978, New York City's budget director promised that the funding for its pensions would be under control in

Fund	Creation	Members	Members' Occupations
NYCERS	1920	185,758 active members 170,835 pensioners, beneficiaries, others	Civil servants; sanitation workers; corrections officers; MTA transit, bus, and bridge employees; Housing Authority and Health & Hospitals Corp. employees; appointed and elected officials
TRS	1917	114,652 active members 103,606 pensioners, beneficiaries, others	Teachers, administrators, and other education professionals of the city's public schools
Police	1857	34,435 active members 50,733 pensioners, beneficiaries, others	Police officers
Fire	1941	10,780 active members 16,760 pensioners, beneficiaries, others	Firefighters
BERS	1921	24,903 active members 20,647 pensioners, beneficiaries, others	Civil-service workers, provisional and part-time workers in the Education Department and other city agencies

Source: Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2017

40 years.[19] But, as that target date approaches, the shortfall in pension funding remains a major concern.

While New York City pensions benefited from the stock market boom that raged on from 1982 to 2000, as well as increased tax revenues from Wall Street, significant pension benefit enhancements were also enacted. Improved benefits for pensioners put into place in 2000 resulted in an estimated $12.6 billion in cumulative pension cost increases from 2000 to 2010, which former comptroller John Liu said was second only to low investment returns in contributing to higher taxpayer contributions.[20] The enhancements included the elimination of the employee share of pension contributions for many workers as well as a partial, automatic cost of living adjustment in pension benefits.

Unsurprisingly, increased benefits and the 2000-2002 stock market downturn caused the gap in pension funding to widen, putting increased pressure on taxpayers to fill the void. The stock market crash in 2008 and associated investment losses have continued to hurt the pensions, whose costs are now consuming a portion of New York City's budget not seen since the city's financial crisis of 1978. Despite evidence of poor performance, it took until 2012 for New York City to reduce its assumed annual rate of return from 8 percent to 7 percent.[21] But, even assuming annual investment returns of 7 percent, the Manhattan Institute predicts the city will need at least 15 more years to eliminate its pension debt.[22]

Despite clear needs for improvements in financial performance, the comptroller's Bureau of Asset Management is poorly run and appears to place political priorities ahead of pensioners needs. According to a study by Funston Advisory Services conducted for Mr. Stringer's office, the Bureau of Asset Management has a high operational risk and operational failure is increasingly likely.[23]

Despite this environment, politically motivated investment decisions by comptroller Stringer and his office have only increased.

3. THE COMPTROLLER AND HIS POLITICAL RISE

In 1992, Scott Stringer won the state Assembly seat previously held by his political mentor, Jerry Nadler. He represented Manhattan's West Side for 13 years before being elected Manhattan Borough president in 2005, and served as a trustee on the NYCERS board, the second largest New York City pension, as of 2006. Over this time, Mr. Stringer grew his public profile by leading efforts such as anti-fracking campaigns as New York decided on whether to use their natural resources, such as neighboring state Pennsylvania has, or to ban the long established practice consistent with the environmental community's push to "keep it in the ground."[24] A few years later, Mr. Stringer turned his focus towards the investments of the $190 billion pension fund to push for changes in corporate environmental practices.

By 2011, Mr. Stringer's name was being floated as a potential mayoral candidate. "Well, I haven't announced what I'm going to run for in 2013," he told Politico at the time.[25] Mr. Stringer decided to run for comptroller after dropping out of that year's mayoral primary, vowing to "reimagine and re-energize the office of comptroller."[26] He took office in January 2014, declaring in his inaugural address, "I intend to remake the office of comptroller into a think-tank for innovation and ideas."[27] Mr. Stringer's name continues to surface in discussions about potential mayoral candidates. In a February 2017 overview of candidates for mayor, the *New York Times* said Mr. Stringer "has been flirting with a run for months."[28] He instead ran unopposed for the Democratic nomination for comptroller and in November 2017 beat a Republican challenger by a 3-to-1 margin. All but one New York comptroller has made a run at the mayor's office in the past 60 years, though only one – Abraham Beame – was actually elected.[29]

4. SHAREHOLDER ACTIVISM TO PUSH POLITICAL AGENDA

During his 2014 inaugural address, Mr. Stringer said as the city's chief fiscal officer, "it is my duty – my promise – that I will do everything in my power to maintain our fiscal health."[30] Yet under his leadership, New York City's budget continues to face unprecedented increases in pension costs, and his management of the $190 billion pension funds continues to focus more on shareholder resolutions and social engagement efforts with very little public focus on improving returns.

Patrick McGurn, special counsel at proxy advisory firm Institutional Shareholder Services, commented on Mr. Stringer's leadership among shareholder groups seeking more corporate board access: "The only thing missing was a drum major to lead the band. So, when New York City jumped in front of the band, the parade took off."[31]

Mr. Stringer's proxy access work has won praise from an institutional investment community that is increasingly siding with activist investors. "He has gotten it on the map more than anyone else," Rosemary Lally of the Council of Institutional Investors told the Wall Street Journal in 2015.[32] Mr. Stringer himself declared, "we are going to be in this space as long as I am comptroller."[33]

The New York City Retirement Systems have a track record of running shareholder proposal campaigns and putting pressure on companies to engage on numerous social and environmental topics. Topics range from proxy access proposals to requests that companies report to shareowners on their policies and practices to ensure gender pay equity, disclose data on the race and gender of their workforce by job category, disclose their direct and indirect political expenditures, or publish an annual assessment of the long-term impacts on their carbon assets and business under a scenario consistent with the 2-degree temperature rise target defined in the Paris Agreement.

OVERREACH

Though shareholder proposals aimed at promoting good governance can serve to increase shareholder value, Mr. Stringer's proposals concentrate primarily on giving large passive funds and pensions special status to elect directors and on environmental issues.

Since he declared during his inaugural his intention to "remake the office of comptroller into a think-tank for innovation and ideas,"[34] the number of proposals his office submitted to portfolio companies almost doubled from 48 in fiscal 2014 to 92 proposals in fiscal 2017.[35] According to the Manhattan Institute's Proxy Monitor, the New York City Pension Funds remain among the most active sponsors of shareholder proposals and were the ninth-most active sponsor in 2017.[36]

Mr. Stringer has justified his shareholder activism efforts by stating he is "seeking to change the market" and is pushing "a national movement to systematically improve the responsiveness of corporate boards to shareowners."[37] Yet these activities are not among the powers and duties of the comptroller outlined in a 159-page summary of state laws featured on his office's website.[38] Further, the returns for the combined New York City Pension Funds in fiscal 2015 and 2016, were 3.4 percent and 1.5 percent[39] – significantly below the funds' targeted annual rate of return of 7 percent, and 185 and 25 basis points below the returns of the S&P 500 in those years respectively.[40]

In September 2017, he launched a second phase of his campaign – "Boardroom Accountability Project 2.0." – intended to "ratchet up the pressure on some of the biggest companies in the world to make their boards more diverse, independent, and climate-competent."[41]

As part of the campaign, Mr. Stringer sent letters to the boards of 151 companies calling on them to publicly disclose the skills, race and gender of their board members, to discuss their process for adding and replacing board members, and to note the sexual orientation of directors, as a voluntary disclosure.

This is not the type of information companies are typically allowed to collect when making hiring decisions. In fact, according to the U.S. Equal Employment Opportunity Commission (EEOC), employers should not request information that discloses or tends to disclose an applicant's race unless it has a legitimate business need for such information.[42] Similarly, the EEOC notes that questions about an applicant's sex are generally viewed as non-job-related and problematic under Title VII the Civil Rights Act of 1964.[43]

Additionally, the New York City Human Rights Law prohibits employers from asking questions during interviews based on the protected classes under the law, including race, gender and sexual orientation.[44]

Mr. Stringer is asking companies to use a standardized "matrix" to disclose this information.[45] Ironically, he declared a few months earlier that "diversity isn't a box to be checked."[46]

The office of the comptroller also uses pension funds to advance various social and political causes beyond board diversity and climate policy efforts. In October 2017, Mr. Stringer announced his office will use $450 million to purchase and support underwater mortgages for New Yorkers, and to support affordable housing.[47] It includes a renewal of $300 million that had previously been invested and the addition of $150 million in new funds. This decision came despite the existing fund's underperformance compared to the pension funds' overall returns in calendar year 2016 and year-to-date.[48] Mr. Stringer's "divestment" announcement in January 2018[49] was yet another costly example of his focus on advancing political causes with little or no consideration of fund performance, much less the interests of the pension fund members. However noble these causes are, these actions carry a financial weight for New York City pensioners.

Commenting on shareholder-proposal activism by public pension funds at the 2015 Proxy Monitor conference, Mr. Stringer declared, "this is an unusual coalition of public pension funds and business leaders from across the country."[50] In fact, just like in New York City, treasurers and comptrollers across the country are placing their own political goals above the financial wellbeing of beneficiaries. The New York State Common Retirement Fund (NYSCRF), the third largest public pension plan in the nation with $192 billion in assets and more than one million members, is another good example of increased shareholder-proposal activism among public-employee pension funds. According to the Manhattan Institute's Proxy Monitor,[51] it is also among the most active sponsors of shareholder proposals and was the fifth-most active sponsor in 2017. Despite its funded ratio in the low 90s,[52] New York State pension managers are also spending more and more time on shareholder proposals instead of focusing their time and efforts on the funds' beneficiaries.

OUT OF OFFICE

Mr. Stringer has spent significant time out of the office appearing at rallies and other events with little connection to fiscal management of the pension funds.

Mr. Stringer made a public appearance or spoke at events more than 450 times in 2017,[53] with only seven of these events related to finance or investment-related matters. The comptroller's official schedule for the first eight months of 2017 only shows two meetings directly related to the pension systems.[54]

The comptroller's shifted focus is also evidenced by the number of events he has participated in to promote a low-carbon economy. In September 2017 alone, the office used taxpayer money to sponsor and attend a panel discussion on climate risk and board climate competency at the Council of Institutional Investors (CII) Fall 2017 Conference in San Diego, California, and a panel discussion on investors' strategies and successes to prompt companies to manage climate risk and identify new business opportunities during the Climate Week NYC. His recent divestment announcement[55] was made at a press conference alongside environmental activists like Bill McKibben and Naomi Klein, who are themselves prominent members of the anti-fossil fuel "Keep It In the Ground" campaign.

In 2017, assistant comptroller Michael Garland has also spoken at 15 events squarely focused on shareholder activism.

A SOURCE OF CONCERN FOR PENSIONERS

A recent perception survey released by the Chicago-based consulting firm Spectrem Group highlights that an overwhelming majority of pension fund members care about their pension fund's performance above all else, and believe fund managers should focus on returns and managing the pension back to a fully funded status. According to the survey, 79 percent of New York City pensioners believe their pension funds should be focused on generating returns and should not be making investment decisions on the basis of politics, even if they support the idea or cause.[56] Additionally, two out of five New York City pensioners indicated they were "very concerned" about shareholder activism diverting time and resources away from more important priorities. They view every dollar spent on these activities as one less dollar to spend on acquiring and acting upon the best investment research available.

MAKING HEADLINES

Mr. Stringer began opposing an "all-of-the-above" strategy to energy development before becoming comptroller. As Manhattan borough president, he led a "Kill the Drill" campaign to prevent natural gas development in Upstate New York.[57] After his election, but before taking office as comptroller, he filed a court brief in support of a town's right to ban the commonly used well stimulation technology known as hydraulic fracturing.[58]

In more recent news releases, Mr. Stringer continues to focus his efforts on rallying support for his climate-related agenda – specifically declaring his intention to prioritize investments in "low-carbon indexes,"[59] use fund resources to lead a "climate change study and carbon footprint analysis,"[60] and examine ways to de-carbonize the pension funds' portfolios, including "ceasing additional investments in fossil fuels, divesting current holdings in fossil fuel companies, and increasing investments in clean energy."[61] Interestingly, the announcement from the New York City comptroller's office came just hours after an announcement from Governor Cuomo[62] calling on New York State comptroller Tom DiNapoli to divest from fossil fuels, an effort Mr. DiNapoli has repeatedly rejected within the state. Mr. DiNapoli said the public pension funds he controls have "no plans" to follow Mr. Stringer's lead. His statement followed the release of an analysis commissioned by the Suffolk County (N.Y.) Association of Municipal Employees that found divesting from energy companies could cost the state pension funds more than $3 billion in lost returns over 20 years.[63] A couple of weeks later, Mayor Bill de Blasio and Comptroller Scott Stringer officially announced plans to divest the city's five pension funds of roughly $5 billion in fossil fuel investments.[64] New York City's two largest pension funds, New York City Employees' Retirement System and Teachers' Retirement System, will immediately pursue divesting by 2022, while the other three city pension funds will be encouraged to begin divestment as quickly as practical. Yet, this divestment strategy seems questionable and more in line with political beliefs than fiduciary duties. According to New York State comptroller Tom DiNapoli, "The notion that we're going to lead the fight on climate change by making the pension fund sell all their energy stocks seems like not the smartest strategy."[65] Mr. DiNapoli adds, "we prefer to be an investor and we engage with companies, we would lose that leverage if we're not at the table anymore as an investor." Experts have also commented that divestment from fossil fuel investments is likely to reduce investment returns. For Kyle Isakower, vice president of the American Petroleum Institute, this is a "tactic of misinformed activists."[66]

Additionally, a recent report commissioned by the Independent Petroleum Association of America and conducted by Professor Daniel Fischel of the University of Chicago Law School estimates full divestment from the New York City would cost the fund up to $1.5 trillion over a 50-year timeframe and up to $120 million annually. [67]

The New York City pensions' climate change initiatives have coincided with a time of increased scrutiny of these issues by large passive institutional investors. In particular, BlackRock, Vanguard, and State Street -- the largest of these investors -- have started to act more like activists and called for corporate disclosure on risks from climate change.[68]

The New York City Employees' Retirement System, BlackRock, State Street, and Vanguard are all members of the Council of Institutional Investors, an organization whose mission is to be the leading voice for effective corporate governance practices for U.S. companies.[69] Similar to Mr. Stringer's efforts, State Street has held over 240 climate-related engagements with 168 companies over the past four years.[70] BlackRock included climate risk in its Investment Stewardship priorities for 2017, saying it would engage companies most exposed to climate risk to understand their views on the recommendations from the Climate-Related Financial Disclosures ("TCFD") and to encourage such companies to consider reporting against those recommendations in due course.[71] Vanguard has also taken strong positions on climate risk disclosure, saying that "it is incumbent on all market participants—investors, boards, and management alike— to embrace the disclosure of sustainability risks that bear on a company's long-term value creation prospects."[72] From an investment perspective, these efforts seem questionable when considering that the TCFD recommendations will be difficult and costly for companies to implement and are likely to mislead investors, as shown by a recent IHS Markit Report.[73]

Combined, these institutions manage trillions of dollars' worth of pensioner funds, retirement accounts, and personal investments and are increasingly taking public stances on political and social issues separate from investment returns.

With more than 1,700 tweets and Facebook posts in 2017,[74] Mr. Stringer and the comptroller's office have also actively utilized social media channels to spotlight their initiatives and push messages related to climate change issues.

Comparing these news releases to newsletters published by individual New York Pension Funds during the same time is striking. Mr. Stringer never mentions any of these "important" initiatives at all in direct communications to pensioners. It is obvious from this omission that Mr. Stringer is worried that pensioners, who care most about maintaining their current benefits, may be displeased at his lack of attention to their most important issue.

Selected social media posts from Mr. Stringer and his office

- February 6: #ClimateChange is real, we have to act. That's why NYC's pension funds are studying our carbon footprint: http://comptroller.nyc.gov/newsroom/press-releases/new-york-city-pension-funds-announce-climate-change-study-and-carbon-footprint-analysis/
- April 22: "…Today, on Earth Day, my office announced that for the first time ever, we are searching for investment managers specifically capable of providing sustainable or low-carbon investment options. We know that when we invest in companies that recognize the irrefutable realities of global warming, we're making smart investment decisions and boosting returns.This is about more than just investing in our planet — it's about investing in our environmental & economic future."
- May 10: Diamonds are forever & the same should be true for our planet. It's why we spoke out about the #ParisAgreement. https://www.ceres.org/news-center/press-releases/over-200-global-investors-urge-g7-stand-paris-agreement-and-drive-its
- May 30: ...And big investors. The #Paris Agreement is critical to our future. It's why we continue to speak out. https://www.ceres.org/news-center/press-releases/over-200-global-investors-urge-g7-stand-paris-agreement-and-drive-its
- May 31: Climate change is real, the science is incontrovertible, and the threat to our planet is undeniable. My statement on the #ParisAgreement
- June 28: We can't take a flat-Earther approach on global warming. It's critical companies disclose how they're preparing for a low-carbon future. https://twitter.com/CNBCopinion/status/880122384820445187
- August 11: Facts matter. Science matters. And we need action on #climatechange now. https://t.co/ibqMwPp6bJ
- December 14: Opening the door to dirtier cars that guzzle more gas is exactly the wrong move for the American auto industry. It's like making a bet on beepers in an age of smart phones. My oped, via @CNBCopinion

> **"But the content contained in communications meant for consumption by the media is markedly different from content contained in communications meant for consumption by fund beneficiaries."**

Newsroom / Press Releases & Statements / New York City Pension Funds Announce Climate Change St...

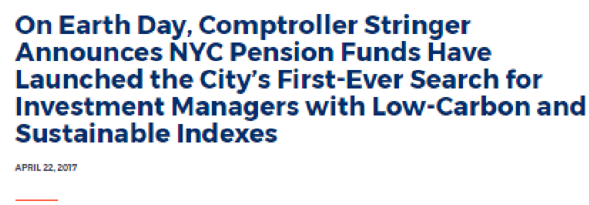
New York City Pension Funds Announce Climate Change Study and Carbon Footprint Analysis

FEBRUARY 2, 2017

(New York, NY) – Today, the Trustees of the New York City Pension Funds announced that they will conduct the first-ever carbon footprint analysis of their portfolios and determine how to best manage their investments with an eye toward climate change. In the 21st century, companies must transition to a low-carbon economy, and a failure to adapt to the realities of global warming could present potential investment risks. As part of the initiative, the funds have selected two independent advisors to examine the associated short- and long-term investment risks.

The move to study the portfolios' climate change exposure and conduct the first-ever carbon footprint analysis is the latest step in a series of other initiatives to address climate change risks, including the Boardroom Accountability Project, which gives investors the ability to ensure boards are diverse and climate-competent.

"There's no question climate change is transforming both our planet and the international economy. Every corner of the globe is feeling the economic, physical, and social impacts," **New York City Comptroller Scott M. Stringer** said. "This crisis isn't going away – and we have to take decisive action. These advisors will help the Pension Funds continue to create long-term, sustainable growth for New York City's retired firefighters, police officers, teachers, and other public employees."



On Earth Day, Comptroller Stringer Announces NYC Pension Funds Have Launched the City's First-Ever Search for Investment Managers with Low-Carbon and Sustainable Indexes

APRIL 22, 2017

BERS WORDS

A publication of the New York City Board of Education Retirement System

Volume 21 No 2 | www.nycbers.org | May 2017

Ribbon-Cutting Ceremony Held In Honor of BERS Office Renovations

On April 7, 2017, the Board of Education Retirement System marked the formal opening of its updated office space at 65 Court Street in Brooklyn. In attendance at the ribbon-cutting ceremony were BERS Board Co-Chairman Raymond Orlando, Executive Director Sanford Rich, Deputy Executive Director Daniel Miller, BERS Board Trustees Isaac Carmignani, Michael Kraft and Donald Nesbit, former BERS Executive Director Dwight Kearns, and Patrick "Rick" Hederman, the retired Director of Fiscal Operations.

Left to right: BERS Board Trustees Isaac Carmignani, Michael Kraft and Donald Nesbit; BERS Board Co-Chairman Raymond Orlando, former Executive Director Dwight Kearns; BERS Executive Director Sanford Rich and BERS Deputy Executive Director Daniel Miller.

Renovations started in December 2016, and the remodel was completed at the end of March 2017. This project was accomplished in three phases, and was a big accomplishment for BERS, as the last major renovation to the office was in 2004. This

Benefits report

A publication of the Teachers' Retirement System of the City of New York

100 Years trsnyc Since 1917

Important Information about TRS' Passport Funds

As of January 1, 2018, the Bond Fund will become the Balanced Fund. Included inside are details about this transition, as well as a special pullout insert providing answers to common questions and a profile of the Balanced Fund.

TRS Celebrates 100 Years!

As we reported in the last issue of *Benefits Report*, TRS will mark an historic milestone on August 1, 2017: our 100th birthday! When TRS was established in 1917, we were a relatively small organization, with nearly 21,000 in-service members, 1,400 retirees, and approximately $750,000 in total assets.

Today, TRS supports 200,000 in-service members, retirees, and beneficiaries and we have $75 billion across two retirement plans. As remarkable as that growth is, the numbers do not tell the entire story. To meet the evolving needs of our members, TRS introduced a host of benefits and services over the past century. These include a second

Spring 2017

Also inside...

TRS Website News: *TRS enhances login and registration security* **/ 2**

Protect Your Loved Ones: *Update beneficiary information* **/ 3**

Required Minimum Distributions: *Annual notifications mailed* **/ 3**

Passport Fund News: *Bond Fund will become the Balanced Fund* **/ 4**

Investment Results: *Performance update for our Passport Funds* **/ 5**

Post-Retirement: *Starting a business* **/ 6**

COLA 2017: *Rate announced* **/ 7**

Go Green: *View your TRS statements online* **/ 7**

5. PERFORMANCE OR POLITICS?

As of 6/30/14	Teachers	NYCERS	Police	Fire	BERS	Total
Assets (in $M)	$58,257	$53,548	$33,894	$10,702	$4,179	$160,580
Funded Ratio*	55.70%	68.10%	65.80%	54.40%	60.70%	62.0%

Total funded ratio calculated as the weighted average of the 5 pension funds

New York City pensioners, for their part, are seeking more transparency. In fact, **86 percent of them would like their pension fund to explain and justify its votes on each shareholder proposal, or abstain from voting if they cannot**.[75]

> **"Most of New York City pensioners have yet to realize the true underfunded nature of their pensions, as 80 percent of them believe their pensions are fully funded."**[80]

The New York City Pension Funds stand at an average funded ratio of only 62 percent,[76] underfunded by 1,020 basis points relative to national public pensions' average of 72.2 percent[77] as of fiscal 2014,[78] with the firefighters and teachers pensions both well below 60 percent. This is significantly below the 80 percent threshold that many public sector experts view as a healthy funded ratio for pension systems.[79]

From fiscal 2006 through fiscal 2016, New York City's average pension performance has remained at 6.2 percent, well below the target of seven percent per year. Since Mr. Stringer joined the NYCERS board of trustees in 2006 – the second largest of the five funds by assets -- the total return on the fund's investment portfolio (net of fees) has only gotten worse. It has consistently underperformed the S&P 500 for the past seven years (by 341 basis points on average through the period fiscal 2011-2017) and, on average, has also underperformed the fund's own benchmark since it was established in 2008 (by 52 basis points). Simultaneously, since 2006, NYCERS's annual fees as a percentage of total assets have dramatically increased (from 0.17 percent to 0.27 percent of AuM annually), growing from $61.5 million in fiscal 2006 to $154.7 million in fiscal 2017, while the pension's funded status declined from 82.3 percent in fiscal 2006 to 69.9 percent as of fiscal 2015.

Plan name	1-yr investment return	3-yr investment return	5-yr investment return	10-yr investment return	Avg.return since 2001
New York City ERS	1.52%	7.18%	6.96%	6.12%	5.02
New York City Fire	0.70%	7.86%	7.58%	6.51%	6.50%
New York City Police	1.44%	7.54%	7.08%	6.15%	6.14
New York City Teachers	1.86%	7.26%	7.06%	5.99%	5.09%
Average	1.38%	7.46%	7.17%	6.19%	5.69%

	NYCERS		TRS		POLICE		FIRE		BERS	
	Performance (net of fees)	*Variance vs. S&P 500 (bps)*	Performance (net of fees)	*Variance vs. S&P 500 (bps)*	Performance (net of fees)	*Variance vs. S&P 500 (bps)*	Performance (net of fees)[1]	*Variance vs. S&P 500 (bps)*	Performance (net of fees)	*Variance vs. S&P 500 (bps)*
Fiscal 2014	16.69%	-535	17.34%	-470	17.37%	-467	17.01%	-503	19.15%	-289
Fiscal 2015	3.11%	-214	2.70%	-255	3.85%	-140	2.96%	-229	3.14%	-211
Fiscal 2016	1.52%	-21	1.57%	-16	1.21%	-52	1.41%	-32	0.17%	-156
Fiscal 2017	12.99%	-247	12.66%	-280	13.19%	-227	12.82%	-264	15.30%	-16
2014-17 Average		-254		-255		-221		-257		-168

1. Performance for the QPP, which makes up ~85% of the funds total assets

The returns on the investment portfolios of the five New York City Pension Funds (net of fees) have consistently underperformed the overall market since Mr. Stringer took office in 2014, and, on average, have also underperformed their own policy benchmark through the period 2014-2016.

For the largest of the funds, the Teachers' Retirement System, total returns net of fees have underperformed the S&P 500 by 255 basis points on average through the period 2014-2017, again underperforming the fund's own policy benchmark[81] by 40 basis points on average through the period 2014-2017.

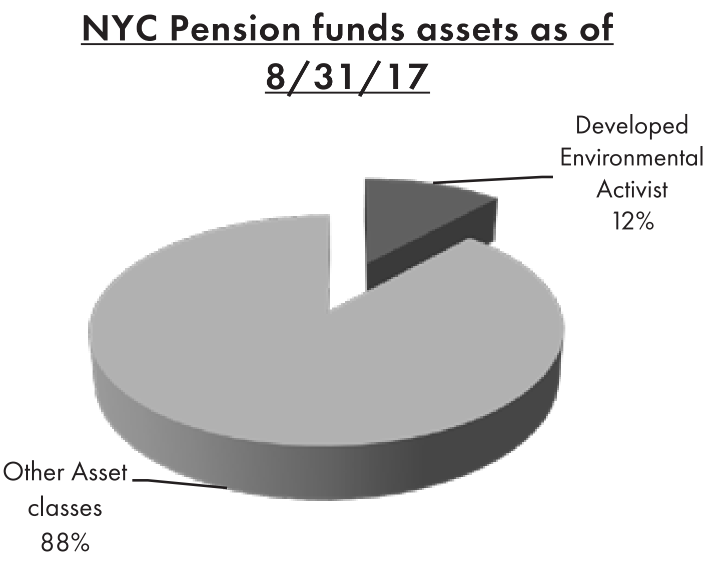
A 2015 Proxy Monitor report on corporate governance and shareholder activism[82] also showed that public pension fund shareholder-proposal activism was associated with lower stock returns.

6. FOCUS ON "E&S" INVESTING

As Mr. Stringer has previously said: "As the fiduciary of the fourth-largest pension fund in the country, the twelfth-largest in the world, we're looking at these companies because we have concerns about our investments... At the end of the day, this is about adding value so our retirees have a strong retirement standing."[83]

Do these ESG – notably E&S efforts – align with performance? While studies have shown that investing according to ESG standards may positively impact investment performance,[84] unfortunately for New York City pensioners, the answer to date is no.

As of August 2017, 12 percent of the total NYC pension funds' assets were invested in a Developed Environmental Activist asset class.[85] While fund managers do not disclose the definition or investment approach of this asset class, some of their investments seem to indicate that they've taken their eyes off the ball and truly neglected due diligence on basic financials. The pensions have built positions in poorly performing companies, which have led to additional losses.



As an example, in February 2017, fund managers increased their position by 14 percent in Allied Minds, an American intellectual property commercialization company, despite a short report[86] published by activist investor Kerrisdale calling its assets "duds." The company's stock fell by more than 60 percent after it discontinued funding for a number of investments one month later, and has declined by 124 percent since the publication of this short report in September 2015.

Similarly, in February 2017, the New York City pensions increased their position by 61 percent in Aimia, a Canadian loyalty-program operator, despite the company's significant revenue concentration and stock lagging performance over the previous three years.[87] Three months after the pensions increased their position, the company's stock price plunged by 63 percent following the loss of a key partnership with Air Canada. And the list goes on.

For each of the specific New York City Pension Funds invested in this Developed Environmental Activist asset class, the return on these investments has underperformed the overall fund return over the last three calendar years full data is available. Yet despite the underperformance of this asset class compared to the funds' overall returns, New York City Pension Funds have increased their investments in its assets since 2015 (the oldest data available).[88] New York City's largest pension fund, the Teachers' fund, has also increased its investments in something called the Socially Responsive Equity Fund from $6 million in fiscal 2012 to $153 million as of April 30, 2017,[89] despite its overall underperformance compared to the fund's benchmark (S&P 500) over the past five years. The annualized five-year return for the Teachers' Retirement System's Socially Responsive Equity Fund underperformed its benchmark by over 20 basis points as of June 30, 2017.[90]

As of June 30, 2017, the NYCERS had 154 private equity investments. Of the 10 worst performing funds in fiscal 2017, three were identified as funds focused on renewable/clean energy, including: Craton Equity Investors I, LP,[91] PCG Clean Energy & Technology Fund,[92] and Paladin Homeland Security Fund.[93] By contrast, none of the top 10 best performing PE funds were identified as being focused on renewable and/or alternative energy.

Ongoing investment in private equity firm Yucaipa's ESG-focused investments has led to similar underperformance. The city's pension funds in 2008 committed almost $100 million to the firm's social impact fund ("Yucaipa Corporate Initiatives Fund II"), which specializes in lower-income urban and rural communities. The fund invested $100 million in AFA Foods, a ground beef processor, which had operations and employees in lower-income areas. The company struggled for a few years before filing for Chapter 11 bankruptcy protection in April 2012, showing losses of more than 50 percent by the third quarter of 2011, and still down by 25 percent a year later. Despite the social fund's significant losses, the pension funds did not pull back.

As of the end of June 2017, the funds were still invested in the Yucaipa fund despite its negative performance of -1.5 percent. Interestingly, employees have also shifted between the comptroller's office and these funds, including Rita Sallis, who was previously deputy comptroller and chief investment officer of the New York City pensions from 2006 to 2010, and Horatio Sparkes, who was previously deputy comptroller for pensions from 2002 to 2006. Both joined Yucaipa in 2010.

Despite Mr. Stringer's public rhetoric, the comptroller's office has simultaneously made investments in companies that have had substantial human rights issues.

NYCERS: The NYCERS' annual report only provides the list of its 40 largest equity holdings and states: "Although this CAFR does not include a full list of the Plan's investment securities, such information is available upon request."

BERS: The BERS' annual report only provides the list of its 50 largest equity holdings and states: "Full listing of holdings can be obtained at NYC Board of Education Retirement System 65 Court Street, Room 1603, Brooklyn, NY 11201."

Police: The Police pension fund's annual report provides a list of randomly selected 50 equity asset holdings and states: "A complete list of the portfolio's holdings can be obtained by writing to Kevin Holloran, Executive Director, New York City Police Pension Fund, 233 Broadway, New York, NY 10279."

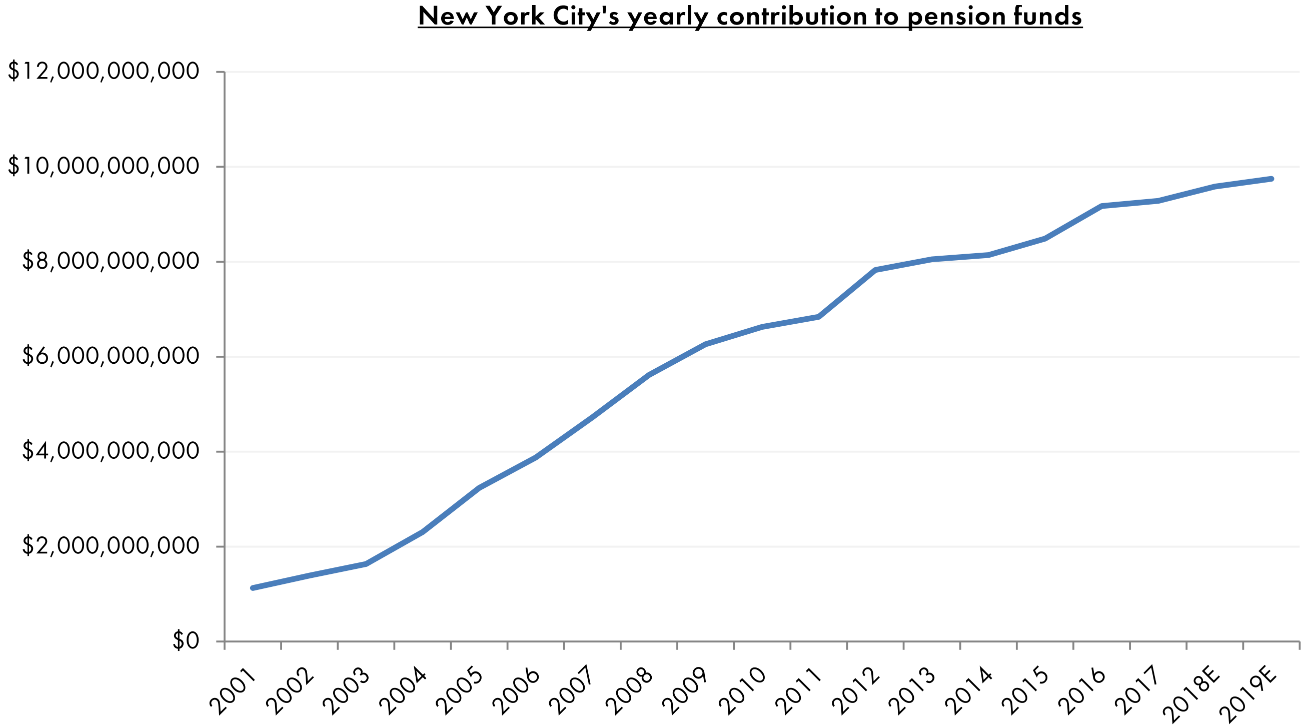
Fire: The Fire pension fund's annual report provides the list of its 50 largest equity holdings and states: "A complete listing of our portfolio holdings is available from our office upon request."

The Corporate Governance Principles[94] issued by the office state that "the systems generally oppose employment policies and job requirements at portfolio companies that may infringe upon civil liberties." As of June 2015, however, the NYCERS owned $5.2 million in ASOS, an online fashion retailer that has been at the heart of a scandal related to dramatic working conditions in its giant distribution warehouse - described as a modern-day sweatshop by former workers[95] - in the North of England since 2015.

Mr. Stringer has called for increased transparency from companies, pushing shareholder resolutions for more and more disclosure. Yet his office fails to actively provide information about its investments.

Mr. Stringer positions himself as a strong advocate of transparency, stating that "retirees and taxpayers alike deserve to know where their money is going," and that "a key to our city's fiscal strength is our commitment to transparency." The pension funds' key investment beliefs state "Transparency: Financial markets work more efficiently when companies provide shareowners with accurate, thorough, and timely information on material matters."[96] Yet, while advocating for more transparency at companies, the New York City Pension Funds provide limited public access. The Teachers' fund is the only NYC pension fund that provides the full list of its equity holdings, and it takes months to get the other pension funds' full lists of investment securities that are supposed to be publicly available.[97]

7. TAXPAYERS ARE PAYING THE BILL



Over the past 15 years, New York City's budget has been hit with unprecedented increases in pension costs. As investment earnings have failed to keep pace with these rising costs, taxpayers have to make up the difference.

The city's yearly contribution to the pension funds has increased from $1.4 billion in fiscal 2002 to $9.3 billion in fiscal 2017 and $9.6 billion proposed in the city's fiscal 2018 budget. By fiscal year 2019, according to Mayor de Blasio's latest projections, pension costs will reach $9.7 billion. New York City's pension costs will soon displace social services as the second-biggest spending category in the city budget, consuming the equivalent of more than 80 cents out of every dollar raised by the city's personal income tax.[98]

Despite significant contributions from taxpayers, New York City Pension Funds remain significantly underfunded with pension liabilities reaching nearly $65 billion as of the end of fiscal 2016, up from $60 billion just three years earlier, despite the stock market gaining 31 percent in that time. The pension shortfall decreased to $56 billion as of end of fiscal 2017, due to strong stock-market returns in fiscal 2017, but one good year does not fix the problem as pension liabilities still represent 65 percent of New York City's entire annual budget of $86 billion for fiscal 2018.

The Manhattan Institute for Policy Research describes the city's "enormous unfunded pension liability" as "a serious threat to New York's future" and therefore recommends increasing the pace at which New York City pays down its pension debt by shortening the amortization period for remaining pension liabilities and/or reducing the annual assumed rate of return.[99] As described by the Manhattan Institute, these actions would however dramatically increase pension contributions putting even more pressure on taxpayers.

- Paying off the debt within 10 years instead of the scheduled 15, while keeping a 7% discount rate, would cost $2.2 billion more a year—over and above current projected levels.
- Maintaining a 15-year payoff period but reducing the discount rate to 6% would boost the contribution by $3.7 billion per year.
- Bringing the assumed return in line with a market rate of 3.61% across a 15-year payoff period would cost an extra $7 billion a year.

-Manhattan Institute

To make up for this deficit, New York City has chased returns by investing billions in higher-risk, higher-fee alternative investments.[100]

Mr. Stringer attempts to portray himself as an advocate against the Pension Funds' record-high fees, yet fee

	Fiscal 2014-2017[104]			
	Teachers	*NYCERS*	*BERS*	*Fire*
AuM	13.20%	18.10%	46.90%	14.60%
Alternative investments	40.50%	-3.90%	39.80%	35.70%
Fees (% increase)	81.60%	8.10%	151.90%	97.30%
Fees ($ increase)	+$139M	+$11M	+$18M	+42M
Fees (increase as % of AuM)	+14 bps	-3 bps	+21 bps	+29 bps

levels have only continued to soar during his tenure, while the amount invested in alternative investments has increased for all of New York City's five pension funds.

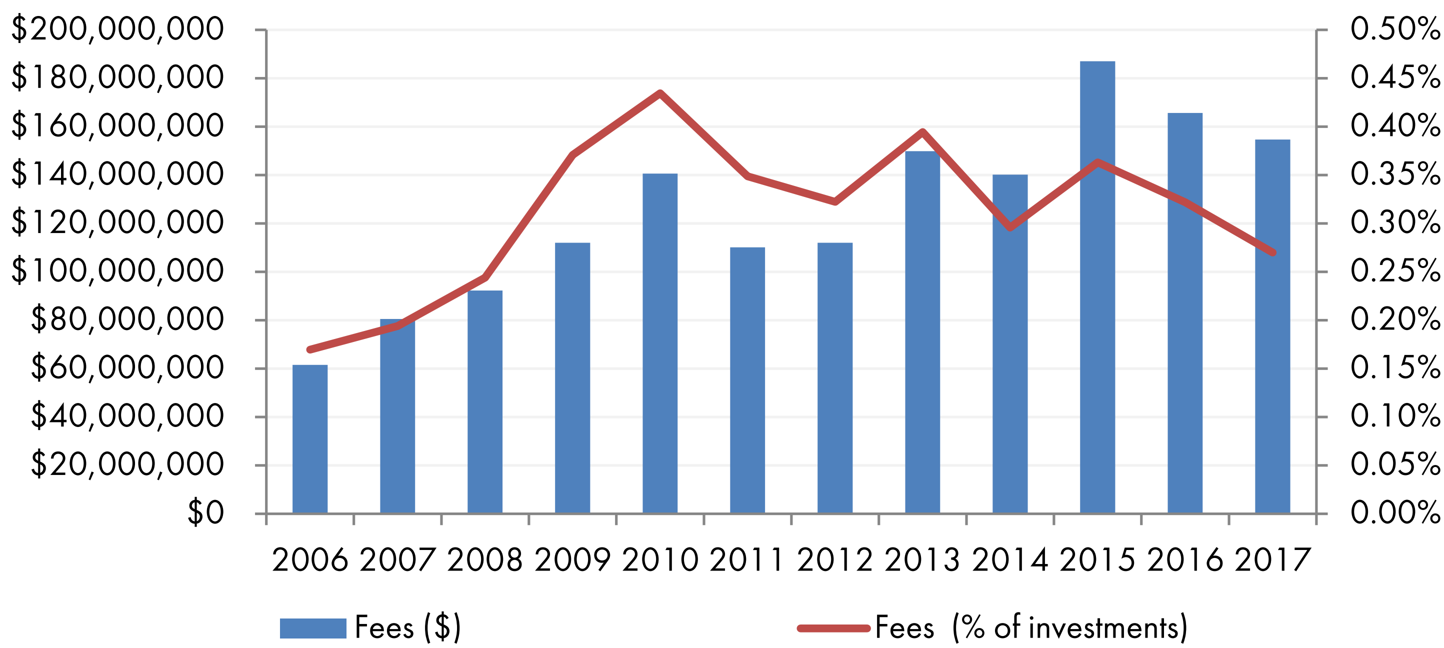
While Mr. Stringer spent 2015 highlighting that fees wiped out $2.5 billion in pension fund gains for the city's five public-employee pension funds over the past decade,[101] fees continued to rise to a record high of $708.9 million for the fiscal year 2015,[102] up 33.7 percent from $530.2 million for fiscal 2014. However, during the same period, pension assets only increased by 1.5 percent and pension performance averaged 3.4 percent,[103] 360 basis points below their targeted annual rate of return of seven percent.

The increased amount allocated to alternative investments in recent years has led to dramatic increases in management fees for all five funds. For example, the Teachers Fund's assets invested in alternative investments have increased by 40.5 percent from fiscal 2014 to fiscal 2017, while total assets only grew by 13.2 percent, resulting in a 81.6 percent increase in fees over the same time, or an increase in fees of $139 million annually.

Despite Mr. Stringer's public complaints about fees, he has voted to increase allowed fees for the NYCERS for the past decade in both his role as a trustee, starting in 2006, and then as comptroller. His votes for allowing increased fees coincided with increased fees wiping out $1.5 billion in pension fund gains for the NYCERS alone between 2006 and 2017.[105]

Between 2006 and 2016, NYCERS fees grew at a Compound Annual Growth Rate (CAGR) of 10.4 percent while assets only grew at a CAGR of 3.6 percent. This was a result of Mr. Stringer's $1.1 billion investment in high-fee hedge funds.[106] Over the same period of time, NYCERS's funded status declined precipitously from 82.3 percent in fiscal 2006 to

NYCERS - Historical Fees (Fiscal 2006 - 2017)



69.9 percent as of fiscal 2015. Confronted with these facts, NYCERS finally voted to liquidate its hedge fund holdings in April 2016, but the city's fire and police pension funds haven't followed suit.

These two pension funds have actually invested almost $2.7 billion in hedge funds, which combined represent about 5 percent of their overall assets under management. Interestingly, the biggest allocation in both cases went to DE Shaw, a $50 billion hedge fund where former New York City Deputy Comptroller for Finance Darcy Bradbury now serves as director of external affairs.

Mr. Stringer has been an outspoken proponent of legislation that would allow him to move billions more in fund resources into private equity, hedge funds, real estate and other "alternative investments" that tend to have the highest fees of any investment class and also tend to be domiciled off shore – paying no U.S. taxes. This is alarming as these decisions jeopardize the long-term financial security of New York City's teachers, policemen, firemen and other employees.

New York City's five pension funds have been consistently raising the allocation limit for alternative assets since 1982, from five percent to 25 percent by 2006. Late in 2014, Mr. Stringer pushed Albany lawmakers to pass a bill that would have allowed an additional 10 percent of the city's $160 billion pension system at the time to be invested in alternatives, which would have given more than $300 million in fees to Wall Street each year.

Mr. Stringer championed the bill following a successful 2013 election campaign for the comptroller office that saw him benefit from an influx of campaign contributions from financial executives. During his campaign, he declared that he wanted the city to consider moving more pension money out of low-risk bonds and into Wall Street firms. Critics say the push into higher risk investments is fiscally dangerous and hypocritical. John Murphy, a former NYCERS executive director, commented: "Alternative investments are the key drivers of fee growth. For Stringer to complain about fees while attempting to raise the [alternative investment allocation] is totally schizophrenic."[107] The bill was amended to a 30 percent limit, and then vetoed by Governor Andrew Cuomo in December 2014.[108]

Investing in expensive and poorly performing hedge funds have put the retirement benefits of millions of New Yorkers at risk. For example, the New York City pension funds paid $2.1 million[109] in fees to Perry Capital in fiscal 2016, and had $129 million invested in the firm when it shut down its flagship fund in September 2016 after losing money for three consecutive years.[110] The cumulative return of the city's pension funds' investments in Perry Capital inception to date was -14 percent, as of September 2016.[111] The city's move towards higher alternative investments has also failed to deliver better returns. New York City's pensions have invested about $11 billion[112] with private-equity firms (as of August 2017) in pursuit of large returns, paying high fees with little financial reward. Yet research shows the fund would have done better with a low-cost stock index fund. The city's two largest pension funds - the teachers' and civil employees' funds - have earned an annualized return of 9.4 percent[113] and 9.3 percent[114] after fees, respectively, on their private equity investments since the late 1990s -- less than the 10 percent they would have earned by putting the money into the Russell 3000, the stock-market benchmark the plans expect their private-equity portfolios to beat by 3 percent a year.

Many of these same private equity firms that New York Pension Funds have invested billions in have simultaneously cut jobs in New York. This is best exemplified by the tragic consequences which affected Pinnacle Foods. The company was held by the private equity firm Blackstone when it took over Birds Eye in 2009 and closed the Birds Eye Foods plant in Fulton, NY, and fired 270 workers. New York State's two public employee pension funds and four New York City pension funds had poured $920 million into the $20 billion Blackstone fund that owned Pinnacle. Fulton Mayor Ronald Woodward said the Birds Eye takeover has devastated his town, adding that he is troubled to learn that New York pension money helped finance the acquisition. "Isn't that a slap in the face to the people in Fulton that are losing their jobs and paying the salaries of those union workers and they're using their investments there," Woodward said. "It's like biting the hand that feeds you."[115]

8. CONCLUSION

The performance of the New York City Pension Funds over the past decade has not kept pace with what is needed to stay solvent over the long term. Unfortunately, even conservative estimates project unfunded liabilities to be in excess of $56 billion. It is therefore extremely concerning that managers are spending dwindling resources on investments that are socially or politically motivated, rather than based on performance.

As a result of this mismanagement, pension contributions have increased over the past 17 years from roughly 3 percent of New York City's total budget in 2000, to over 11 percent in 2017. Moreover, taxpayers now have 17 percent of their New York City taxes go to pension contributions. This unacceptable increase for the taxpayer has grown dramatically during Mr. Stringer's leadership, as he continues to spend more time promoting his politics, rather than fulfilling his fiduciary responsibility as comptroller. Mr. Stringer is not the Mayor of New York, he is the Chief Financial Officer for the city. His decisions should be made solely on the financial interest of the city.

Unfortunately, New York City pensions are not alone as other pensions' heads also are using their positions of trust for social and political benefit, rather than protecting their beneficiaries' retirement and taxpayers from devastating liabilities. The New York State Common Retirement Fund (NYSCRF) is the third largest public pension plan in the nation and also the fifth-most active sponsor of shareholder proposals in 2017. Despite its funded ratio in the low 90s, pension managers are spending more and more time on shareholder proposal instead of focusing their time and effort on the funds' beneficiaries. As we have seen with New York City, pension leaders taking their eyes off their fiduciaries duties to promote social or political agendas and increasing investments in questionable funds has resulted in pension funds going from being fully funded to facing solvency issues.

Pension incomes are not gambling chips to be played with, but livelihoods to be protected. It's time for professional investors to steward the pension capital, so that performance, rather than personal politics, will once again become the primary goal of the New York City comptroller's office.

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