

The New York Times

"All the News That's Fit to Print"

SATURDAY, MARCH 22, 2014

Reprinted With Permission

Business Day

A Pension Fund Invests Against the Rules, and Wins

Are the trustees of the Tampa firefighters and police officers pension fund out of their minds?

"Quite a few people tell me we're crazy," Richard Griner, a 41-year-old Tampa police detective and vice chairman of the pension fund's board, told me this week. "I go to quite a few investment conferences. They just can't believe that we do this the way we do. But then I tell them the numbers, and they tend to shut up."

JAMES B. STEWART

COMMON SENSE

The Tampa, Fla., pension fund may be unique in its approach to managing its assets, which totaled \$1.76 billion as of last September. Unlike the so-called Yale model, which has been widely copied and stresses alternative investments, the Tampa fund has no hedge fund or private equity investments.

But neither does it follow the low-cost, index-oriented approach championed by Vanguard and others. The Tampa fund doesn't own index or mutual funds.

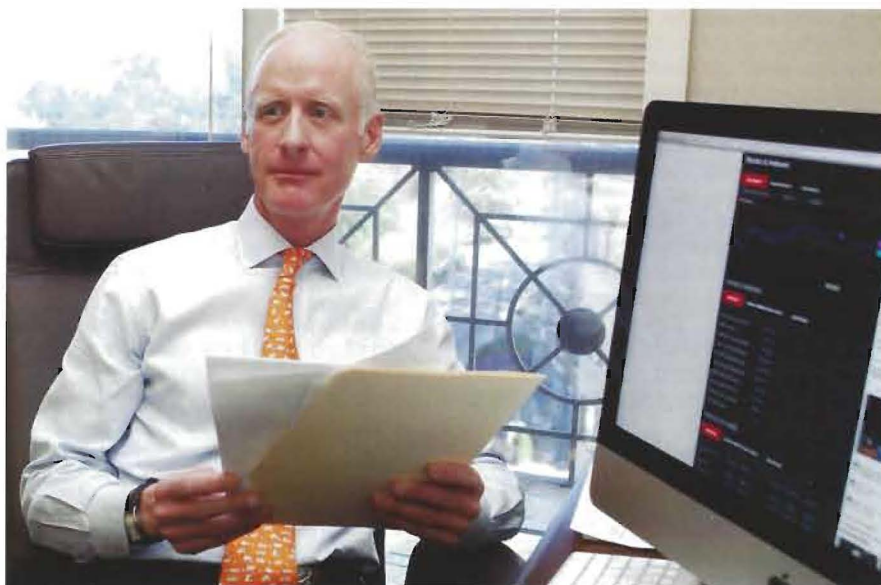
As for being diversified, which is the mantra of nearly all institutional money managers and consultants, it isn't. A single outside manager makes all investment decisions, and the fund's assets are concentrated in a relatively small number of stocks and fixed-income investments.

In short, the Tampa pension fund pretty much breaks all the conventional rules of fund management.

But then there are the numbers, as Mr. Griner put it.

Over the last 20 years, the Tampa fund has generated an average annualized return of 9.88 percent as of last Sept. 30, which puts it in the top 1 percent of public pension plans with assets of more than \$1 billion, according to the Wilshire Trust Universe Comparison Service from the investment advisory firm Wilshire Associates. The fund's 10-year annualized return (9.72 percent) and 25-year return (10.48 percent) also rank in the top percentile.

By comparison, a conventional 60/40 mix of investments — 60 percent in a Standard & Poor's 500-stock index fund and 40 percent in a bond index fund — generated a 20-year average annualized return of 7.9 percent, and the S.&P. 500 generated 8.8 percent. Calpers, the giant California



TAMI CHAPPELL FOR THE NEW YORK TIMES

Harold J. Bowen III, who oversees a pension fund's strategy.

pension fund whose highly diversified approach has been widely copied among pension funds, generated 7.7 percent over the same period.

Yale University remains the champion, with a 13.5 percent average return over a 20-year period. But over longer periods, the Tampa fund is coming close. Since Bowen, Hanes & Company started managing the fund in 1974, it has generated an average annualized return of 12.2 percent, and its assets have grown to over \$1.75 billion from \$12.1 million.

Thanks to the fund's performance, Tampa's retired police and firefighters enjoy retirement benefits that are the envy of many state and local governments. After 30 years of service, retirees are paid a pension that amounts to 94.5 percent of their average compensation for the highest three years of their last 10 years on the job. On average, that amounts to just over \$40,000 a year for nondisabled retirees. The fund has 3,326 beneficiaries.

The man responsible for these numbers since the late 1990s is Harold J. Bowen III, known as Jay, president of Bowen, Hanes,

based in Atlanta. Bowen, Hanes has been managing the fund for 40 years, which may be a record for longevity. I was curious to meet Mr. Bowen when he was in New York recently, since consistently beating the S.&P. 500 over 10 or 20 years, let alone 40, is all but unheard-of.

Mr. Bowen, 52, is tall and thin — he will be competing in the Escape from Alcatraz triathlon in San Francisco on June 1 — and his investment approach, based on his description, could be considered boring. An English major at the University of North Carolina, he got interested in economics and attended the London School of Economics before joining his father's firm in 1986. His father, Harold J. Bowen Jr., forged the tie to the Tampa fund and generated its high returns before handing his investment philosophy and clients to his son.

"We take a very plain-vanilla approach," Mr. Bowen said. "No private equity, no hedge funds, no speculative bonds."

The fund maintains a conservative asset allocation of 65 percent equities and 35 percent fixed income. Before 1980, the

fund owned no foreign securities; today, those securities can go to 25 percent. But it has no emerging market equities. "We're risk-averse and very quality oriented," Mr. Bowen said. "We don't want to speculate. We're not trying to hit the ball out of the park."

His firm charges low fees: For the Tampa fund, it's a flat 25 basis points of assets under management, or \$4.4 million last year based on the fund's value as of Sept. 30. By comparison, Calpers spent \$33 million in 2012 just on consultants, which doesn't include any management or performance fees.

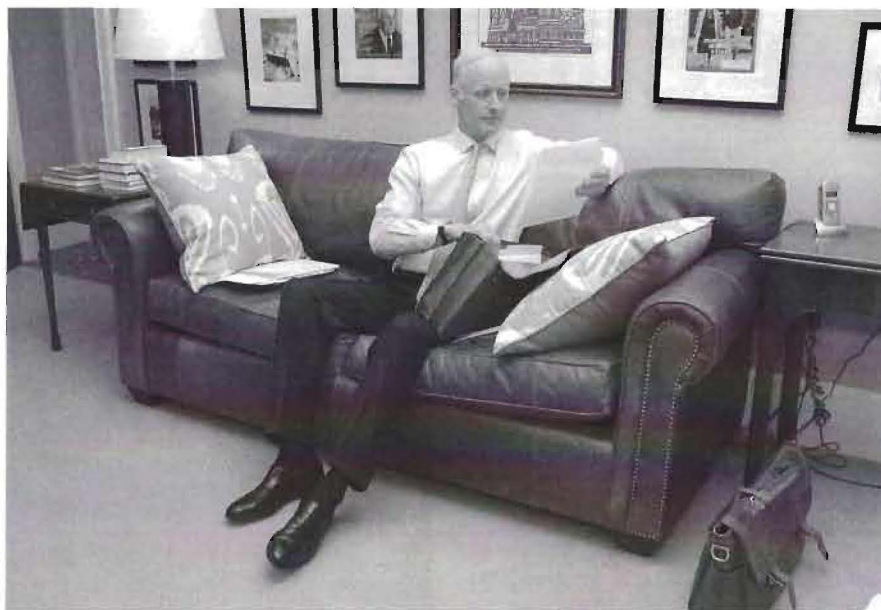
But Mr. Bowen's approach isn't passive. The key to the fund's strong performance has been old-fashioned stock picking, and a relatively concentrated portfolio of 70 to 80 stocks. "We're looking for the blue chip companies of the future," Mr. Bowen said, which tend to be companies with market capitalizations of \$500 million to several billion.

He also takes a value approach, looking for companies that are out of favor and seem undervalued by the market. Then, the fund holds its positions over long periods. Mr. Bowen oversees five investment professionals, and they take a "thematic, top-down approach," identifying macroeconomic trends and stocks that will benefit.

Currently, the fund has a focus on global, consumer-oriented companies like Unilever and Nestlé. Over the last decade or so, the firm was astute at identifying the commodities boom and moved into Canadian resource companies like the nickel producer Inco (which generated a big gain when it was taken over by the Brazilian mining giant Vale). After the financial crisis, the fund shifted away from natural resources, although it still holds some positions.

Mr. Bowen expresses some surprise that his concentrated, buy-and-hold, value-oriented approach is considered so unorthodox among pension fund managers. "It's pretty much what Warren Buffett does," he said. "He's not diversified, either. But practically no one else follows his model. We're like salmon swimming upstream. The consultants have been trying to wedge their way in here, but after 40 years, the trustees back me."

Mr. Griner, the pension board vice chairman, said: "Every time I go to a conference, there's a sales pitch that, the more you diversify the safer you are. But my train of thought is: I've got a 40-year return rate here that blows any methodology out of the water. No one else, not the big money managers, not the big endowments, have the same returns with such low fees. We've got a history of 20-year rolling returns that's higher than what the S&P. is putting out. That's as solid as you can



TAMI CHAPPELL FOR THE NEW YORK TIMES

Harold J. Bowen III, who handles the investments for the Tampa fire and police pension fund.

get. As long as Jay keeps producing those kinds of returns, I can't fathom changing anything."

Both Mr. Bowen and Mr. Griner acknowledge that the fund doesn't always outperform broader averages. Last year, the fund's return of 15.11 percent qualified for the 14th percentile in the Wilshire Universe, and trailed the S&P's 19.3 percent return over the same period. (The fund's stocks, however, did outperform the S&P 500.) "We have the luxury of taking a long-term approach, Mr. Bowen said. "If we outperformed the S&P 500 every year, we'd be doing something wrong."

The strategy strikes many as crazy, until they see the size of the returns.

Mr. Griner said that a patient, long-term approach is instilled in new trustees by others on the board. (He's one of nine trustees, which include three each from the fire and police departments and three appointed by the mayor.) "Our fund exists in perpetuity," he said. "So a three- or one-year outlook, it has some influence, but it's not going to dictate our outlook. We want growth over 50, 60 years. We want Jay to look long term and give us stable long-term results."

Michael Schlachter, a managing director at Wilshire Associates, is one of the

skeptics about the fund's approach and its ability to keep generating such high returns. He said that handing all of a pension fund's assets to a single manager like Mr. Bowen "is extremely unusual and it poses a fair amount of risk. To assume that one firm is the best in every asset category, especially a small firm that no one around here has ever heard of, is extremely risky. What if a bus hits the senior person?"

Mr. Griner said he understood why others were skeptical. "The only real downside to having a single manager is if you have a bad one," he said. "You think of all the managers. How many can outperform the S&P. over any period of time? It's very hard to find anyone with any consistency over a decade who can outperform the S&P. It's unheard-of. We happened to have gotten a good one, and he's done a phenomenal job. But I don't fault others. It would be scary to entrust everything with one person and hope you've gotten the right person." He added, "I hope it never happens, but if Jay leaves, a low-fee index option might be the way to go."

Mr. Griner and his fellow trustees serve on the board without pay, but he credits the experience with changing his life. "I'd dabbled in the stock market," he said, but since joining the board, "I've been to seminars. I've taken classes at Wharton. This summer I'm going to Harvard." He's taking classes at the University of South Florida and is studying to become a certified financial planner.

"We let Jay make the decisions, but I like to know how, why and when," Mr. Griner said. "I yearn for that knowledge."