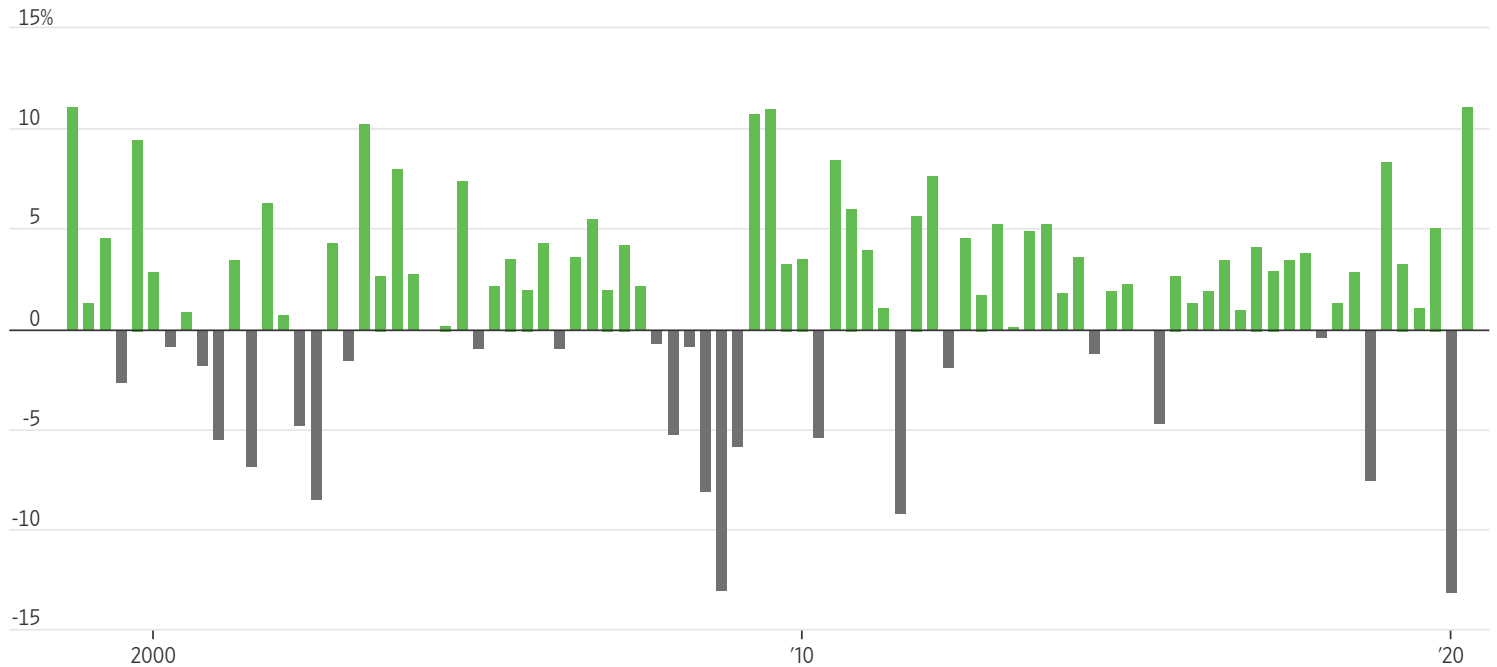


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Beleaguered Public Pension Funds Make Record Gains in Second Quarter

Even so, annual returns for funds with June fiscal years were far short of long-term targets

Public pension fund quarterly returns



Source: Wilshire Trust Universe Comparison Service

By [Heather Gillers](#)

Aug. 4, 2020 5:00 am ET

Public pension funds set a 22-year performance record in the second quarter, recovering some but not all of their losses from the first quarter.

Double-digit stock gains pushed pension returns to a median 11.1% for the second quarter, according to Wilshire Trust Universe Comparison Service.

Even with the rebound, median annual returns for the public pensions whose fiscal years ended June 30 were 3.2%, far short of the funds' long-term investment-return target of around 7%.

"That's the funny thing with math, if you go down 20%, a 20% return does not make it up," said Robert J. Waid, managing director at Wilshire Associates.

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Before the pandemic, public pensions were already trying to plug large funding holes by pursuing aggressive returns to make up for insufficient government funding in past years and decades. State and local pension funds in the U.S. held \$4.05 trillion in aggregate as of March 31—\$4.93 trillion less than the cost of promised future obligations, according to Federal Reserve data.

Investment shortfalls drive up the amount state and local governments have to pay in. Funds are also bracing for coronavirus-related government-revenue losses.

The second quarter's returns, the best since 1998, provided a welcome boost.

Jay Bowen, manager of the Tampa Firefighters and Police Officers Pension Fund, said the market was treating the pandemic more like a natural disaster.

"You get the plunge but it doesn't last for a protracted period and then there's a sharp rebound," said Mr. Bowen.

"That could change," he said. "It's a very fluid situation."

Some of pensions' second-quarter gains reflected quick thinking during the record losses of the first quarter.

Mr. Bowen credits his fund's 17.1% return in the second quarter in part to stocks bought on the cheap while the market was crashing. During the four-week period ending March 24, the police and fire fund bought and sold \$500 million in stocks, compared with \$180 million during the previous four weeks.

"Normally we're very buy-and-hold, but when this presented itself we moved pretty fast," said Mr. Bowen of Bowen Hanes & Co., the fund's sole manager. "The moves that we made then set us up for why we're having a very good fiscal year now."



Investment returns were the best in years for pension funds including the Tampa Firefighters and Police Officers Pension Fund, but some may still face year-end losses.

PHOTO: CHRIS URSO/ZUMA PRESS

The \$2.2 billion fund took the opportunity to add to holdings in technology stocks including Nvidia Corp., Adobe Inc. and Microsoft Corp., pharmaceutical stocks including Johnson & Johnson, Zoetis Inc. and Thermo Fisher Scientific Inc., and stocks that mix tech and finance such as PayPa Inc., Visa Inc. and S&P Global Inc.

Tech stocks have bolstered equity markets, rallying as reliance on virtual communication rises.

The Tampa fund, one of the nation's best-performing public pensions, is up 7% for the 12 months ended June 30.

Record second-quarter returns likely saved many pension funds from having to report year-end losses.

The \$194.3 billion New York State Common Retirement Fund, whose fiscal year ended on March 31 in the middle of market volatility, suffered an annual loss of 2.7%.

The California Public Employees' Retirement System, the nation's largest pension fund, returned 4.7% for its fiscal year ended June 30 while the California State Teachers' Retirement System returned 3.9%.

With local governments hemorrhaging tax dollars as a result of the pandemic, pension managers have to worry about governments adjusting budgets midyear, said Keith Brainard, research director of the National Association of State Retirement Administrators.

"They are likely to find, 'Oh boy—our revenues are short by X amount and we're just going to have to contribute less to the pension plan.'"

The problem is already playing out in Oklahoma, where Teachers' Retirement System Executive Director Tom Spencer expects to lose out on about \$70 million in state sales and

income taxes in fiscal year 2021 and \$75 million to \$80 million in fiscal 2022.

The roughly \$17 billion fund has more than 70% of what it needs to cover future pension promises to K-12 and college teachers, its highest funding level ever, Mr. Spencer said. Though the state expects to pay extra over the following five years, he estimates the fund will lose the opportunity to earn about \$40 million in investment returns.

“If we don’t have that money we can’t earn income off it,” Mr. Spencer said. “You can’t make money out of thin air.”

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