PAPERS

Pennsylvania Association of Public Employee Retirement Systems

PO Box 61543, Harrisburg, PA 17106-1543

Website: ***www.pa-pers.org***

Summer 2022

In This Issue

Conferences Continue in Hybrid Format

With COVID concerns still impacting our lives, PAPERS earlier this year decided that both of its 2022 conferences – *Spring Forum & Fall Workshop* – will be offered in hybrid format. Some sessions will be offered only in virtual on-line format while other sessions will be available both in-person and on-line.

This Spring Forum took place May 10-11 and 24-25 with almost 150 participants. The Fall Workshop is scheduled for Nov. 10 (in-person) and Nov. 14-15 virtual. Registration for the Fall Workshop will begin in September; watch for details to be released and posted on the PAPERS website www.pa-pers.org.

Save the Dates

PAPERS Fall Workshop

November 10, 2022
In-Person Sessions @ Harrisburg Hilton

November 14 & 15, 2022
Virtual Sessions

Look for details & registration materials in early fall

There are several opportunities for PAPERS' corporate members (Associate and Affiliate) to be involved in the Fall Workshop:

- Details about corporate sponsorships at three levels (Platinum - $5,000; Gold $3,000, Silver $2,500) are available at: **http://www.pa-pers.org/newweb/documents/Membership%20and%20Sponsor%20Fees%202022.pdf.**
- Speaker/presentation proposals should be submitted to PAPERS as early as possible in August when agenda planning for the Fall Workshop gets underway. The application form may be found on the home page of the PAPERS website **www.pa-pers.org** or by clicking on: **http://pa-pers.org/newweb/documents/Speakerapplication.pdf.**

From the PAPERS Board President

Happy Summer everyone!!

I hope this finds everyone in good health and enjoying their summer.

Having recently wrapped up another successful hybrid summer conference in May, I want to express my thanks to Executive Director Karen Deklinski & Office Manager Doug Bonsall for handling all the logistical and technical functions; our Education Committee chaired by Steve Vaughn for a great selection of topics; to our presenters for sharing their expertise and, last but not least, our Sponsors who without your continued support we could not have held the Conference. A big **Thank You** to you all!!!

Special thanks to Pa. House Representative Frank Ryan (PA. 101 Lebanon) for his sponsorship of HB 2010 regarding required Annual Educational Training for Pension Plan Trustees. As of this article, the Bill has passed the House unanimously and headed to the Senate for passage. On the heels of this good news, is the continued progress toward completion of our new education program being developed by Penn State University. With this program, PAPERS will be prepared to meet the requirements of the legislation when passed.

This would be a great opportunity to expand our membership to more Pension Plans. If you know of any plans that are not members and with which you are familiar, please reach out to them in regards to the new legislation, our training product and Conference CPE's encouraging them to become members.

With all the continual changes in Pension legislation on both the National and State level, it is now more important than ever that Pension Plan Trustees be educated in their duties and responsibilities. **That is the mission of PAPERS-------Trustee Education**. Enjoy the rest of your summer and watch for details in the coming months on the Fall PAPERS Conference.

Bob Mettley
PAPERS Board President

Becoming a PAPERS Member is Easy

For details about PAPERS four membership categories and/or the simple process to apply for membership, check the "Join Now" section of the PAPERS website **www.pa-pers.org** or contact:

- **Mail - PAPERS, PO Box 61543, Harrisburg, PA 17106-1543**
- **Phone – (717) 921-1957**
- **Email - douglas.b@verizon.net**

The website gives complete details for three ways to submit the dues payment.

Membership Categories

- **Participating** ($125/year early bird rate; $150/year after 3/31/2021) - *Public employee retirement systems (pension funds)*
- **Associate** ($1,500/year) - *Corporate providers of legal and investment services to pension plans*
- **Affiliate** ($750/year) - *Corporate providers of other services, exclusive of legal and investment services, to pension funds.*
- **Sustaining** ($75/year) - *Individual membership open only to those persons with an interest in public pensions but not affiliated with an organization which qualifies for group membership in any other category above*

BNY Mellon White Paper:

The Evolution of Public Asset Owners

Public asset owners face a once-in-a-generation moment. Old assumptions that helped guide their strategies have started to lose relevance. Technology and innovation have created new demands while allowing them to reimagine what is possible. In addition, stakeholders and beneficiaries of public institutions have new expectations, such as sustainability and transparency. These high pressures for change will draw a clear line between the present and the future. Public institutions must and will radically transform.

To understand this transformation, BNY Mellon interviewed more than 90 senior leaders from almost 50 institutions globally, representing nearly US$9 trillion in assets. We can summarize our findings as follows:

Public asset owners seek more boldness and creativity in searching for yield.

- **Almost all are actively exploring new asset classes, products and investment strategies**. Central banks are extending into equities, while public pension funds increase allocations to alternatives and sovereign wealth funds test digital assets and take more active roles in shaping market structure.
- **Securities lending is on the rise, and one-third of those surveyed will initiate or expand programs over the next five years**. New tools and market models help them alleviate concerns, supported by shifting regulatory winds and more flexible systems.
- **Nearly 70% have taken on sustainability-themed or impact investing.** While adoption and approaches vary widely, most are embracing ESG obligations. However, the availability of reliable, transparent and comparable ESG data remains a challenge.

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The Evolution of Public Asset Owners

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Public asset owners are willing to reexamine and redefine every element of their operations.

- **Only 6% of survey respondents are satisfied with their operating model**. As public asset owners look to optimize yield, they face complex choices between operating model simplicity versus purposeful customization.
- **63% have begun operational transformations.** To meet changing public demands, investment mandates and portfolio models, public asset owners are adapting or overhauling their operating models that enable the front, middle and back office.
- **68% will change the balance between internal and external portfolio management over the next five years**. Approaches vary meaningfully, with no single answer as to the right mix of internal versus external portfolio management. Typically, institutions externalize to gain experience while they internalize to reduce costs or build permanent, local capabilities.

Digitization lies at the root of innovation and change.

- **60% view data integration and end-to-end visibility as top priorities.** Public institutions have begun to account for the importance of data, seeing the ability to seamlessly digest, analyze and apply data insights across the front, middle and back office as a source of alpha.
- **Senior leaders consistently highlighted five common data challenges.**
  1. Clarifying purpose
  2. Addressing fragmentation
  3. Accounting for diverse data types
  4. Standardizing reference data
  5. Fostering a data culture.
- **Technology discussions center on the promise of cloud computing and the challenges of cybersecurity.** While political sensitivities and security concerns led some to use only local servers, new national solutions and the promise of future scalability are prompting a shift to the cloud.

Read the full report here.

About the Author:

Christine Mikolajuk is Chief Operating Officer for BNY Mellon's Global Client Management team in EMEA. In this role, Christine supports some of the Bank's most strategic relationships, as well as driving major projects globally and in EMEA.

Before joining BNY Mellon, Christine was managing director at State Street Global Markets where she was responsible for strategy across the Bank's trading platforms and participated in some of the Bank's most critical acquisitions. Christine began her career at the Boston Consulting Group, where she advised clients in Europe, Africa and the US across multiple industries. She holds an A.B. from Harvard University and an M.St. from the University of Oxford

A Potential Inflation Solution for Equity Investors

BY: Maarte Nederlof and Seth Toley, Neuberger Berman

We are seeing that a current top concern of investors of all types globally is how their portfolios will perform in a sustained inflationary environment. We believe that direct exposure to commodities might be beneficial, but many institutional investors do not have dedicated commodity futures allocations. Rather, most investors' largest allocation is to equities, and we think there may be some interesting equity solutions that may help position for inflation without requiring a change to strategic asset allocation.

Equity real asset strategies may help investors benefit from higher inflation regimes by increasing exposure to hard assets such as energy, mining and agricultural equities, precious metals and real estate. For equity investors who are unable to allocate to futures due to their investment policies, we believe this approach may provide a way to participate in the opportunities created by rising real asset prices.

To provide more diversified exposure to the inflation theme, we believe that equity investors may consider a diversified approach across energy, base metals and agricultural equities, precious metals and REIT equities. Using the available history of the relevant MSCI sector subindices, we calculated that an equally weighted approach would have outperformed the MSCI ACWI Commodity Producers Net TR Index by over 150 basis points from Nov 30, 2003 and would be up 16.0% year-to-date through March 31, 2022.

For investors who also expect inflation to persist in the near future and medium term, we believe an investment in real asset equities can provide those, unable to allocate to commodities directly, with an alternative way to participate in the inflation trade.

Note: To access the full article, please use the following link: **Full PDF | A Potential Inflation Solution for Equity Investors**

About the Authors:

Maarten Nederlof, Managing Director, joined the firm in November 2019 as Head of Portfolio Solutions (Americas) for the Quantitative and Multi-Asset Class Investments (QMAC) team. He is responsible for advising clients on portfolio construction and designing investment solutions using Neuberger Berman's proprietary technology and platform. Prior to joining the firm Maarten was the Founder, CEO, and CIO of Risk Premium Investments. Prior to this role, he held roles as Head of Portfolio Solutions at PAAMCO designing custom alpha and overlay solutions, as Global Head of the Pension Strategies group at Deutsche Bank, as Head of Research and Portfolio Management at TSA Capital Management, and as a Portfolio Manager at K2 Advisors. Nederlof began his career in quantitative research at Salomon Brothers in New York. Maarten studied Chemistry at the University of Pennsylvania.

Seth Tolev, CFA, Vice President, joined the firm in 2017 following the acquisition of Neuberger Berman Canada ULC (formally known as Breton Hill Capital (BHC)) . Seth is a Quantitative Investment Analyst on the Quantitative Research and Development team. Prior to joining BHC, Seth worked at BMO Capital Markets, where he developed pricing and risk models for the interest rates and structured products trading desks. He was previously a Junior Quantitative Analyst on the structured energy desk at Axpo Trading as well as on the Tactical Asset Allocation team of LGT Capital Partners. Seth received his MSc from the Swiss Federal Institute of Technology in Quantitative Finance and a Bachelor of Mathematics from the University of Waterloo. Seth has been awarded the Chartered Financial Analyst designation.

Protecting Pensions in the "SPAC" Era

BY: Robbins Geller Rudman & Dowd LLP
Darren J. Robbins, Esq., Danielle S. Myers, Esq., Laura S. Stein, Esq.

"SPAC" has been perhaps the hottest acronym on Wall Street over the past few years. These "special purpose acquisition companies" were introduced as a faster, more lucrative way for a company to go public than a traditional IPO and as a way for more investors to get in on the action. But in the last few years, SPACs have also become notorious for underperforming the rosy promises made to investors about potential returns. Companies that merged with SPACs have underperformed the S&P by 80%, according to a recent report by PitchBook. Investors, including institutional investors and public funds, are facing massive losses on SPAC investments, and a significant wave of shareholder litigation and regulatory action is building.

Many institutional investors and market-watchers are asking, how did we get here, and what remedies do we have? There are four critical points for public funds to take away from the unfolding SPAC debacle.

First, SPACs are actually not new. They're a rebranded version of "blank check companies" that were implicated in the stock scams of the 1920s. A "blank check" company has no business or operations at the time of its initial public offering. Investors bought shares of the "blank check" entity, and the sponsors promised to invest the money to provide a significant return, which often never materialized. Afterwards, regulators enacted tougher rules designed to protect blank check company investors.

A SPAC is an iteration of a blank check company. The SPAC sponsor will list a shell company on a public stock exchange and then raise money from investors with the goal of buying an operating business. The target business is unknown, other than the general industry it may be in. Unlike in a traditional IPO, investors in a SPAC rely on the skill, experience, and diligence of the SPAC sponsor to acquire a winning business that will generate returns.

After a target company is identified, SPAC shareholders vote on the deal. SPAC shareholders can elect to redeem their shares rather than participate in the merger, entitling them to the *pro rata* amount of funds held in the blank check company's trust account. If the SPAC deal is approved, the target business merges with the blank check company, allowing it to become publicly traded. If a SPAC sponsor fails to complete a business combination within the allotted time frame (typically 24 months), proceeds from the SPAC IPO are returned to investors.

Second, despite the problematic roots of this investment strategy, there was an absolute bonanza in the use of SPACs to raise capital over the last few years. According to *The Wall Street Journal*, SPACs raised over $160 billion from investors in 2021. In 2020, SPACs raised over $80 billion – which was more than the prior ten years combined and more than the entire traditional IPO market. According to the *Journal*, "Upstart companies of all stripes clamored to participate [in SPACs], enamored with the pool of eager investors who were ready to back them, and enticed by celebrity SPAC creators and bankers who mint money when they complete deals."

Third, investors have experienced profound losses on SPAC-related investments. The proprietary CNBC SPAC Post Deal Index, which is comprised of SPACs that have completed their mergers and taken their target companies public, is down nearly 45% over the past year and has declined 20% in 2022. These kinds of poor returns may be a feature of SPACs, not a bug, due to the conflicts of interest inherent in their design.

Typically, SPAC sponsors receive a fee of 20% of company shares if the blank check company successfully completes a merger. This fee can be worth hundreds of millions of dollars. But the lucrative 20% SPAC sponsor fee is forfeited if no initial business combination is completed. This, in turn, creates a strong incentive for blank check sponsors to push for SPAC shareholders to approve any merger to ensure their payout, even if the deal is not in the best interests of SPAC shareholders.

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Protecting Pensions in the “SPAC” Era

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Fourth, institutional investors aren’t without protection here. Many SPAC transactions typically provide disclosures about the target company and its outlook for future business or market growth. There is serious potential liability for SPACs, their sponsors, and others for making false or misleading material misstatements or omissions in connection with the purchase or sale of a security. Indeed, investors are increasingly turning to securities class action litigation to seek redress for SPAC-related fraud. While only two securities class actions were filed against SPACs in 2019 and five in 2020, at least 28 were filed in 2021.

For example, the energy assets company Alta Mesa Resources, Inc. took a $3.1 billion write down and 99% stock decline following its SPAC business combination – a loss of nearly its entire value as a company. Investors brought a securities fraud case, *In re Alta Mesa Resources, Inc. Securities Litigation*, alleging that the material omissions and misstatements were made to investors to induce them to approve the SPAC transaction. The case is now pending in the U.S. District Court for the Southern District of Texas. Likewise, DraftKings Inc. merged via a SPAC with SBTech (Global) Limited, a company with an alleged history of lawful operations in black-market gambling. The company’s stock price dropped significantly when these allegations became public. Investors filed a securities fraud case, *In re DraftKings Inc. Securities Litigation*, which is now pending in the U.S. District Court for the Southern District of New York.

Nonetheless, institutional investors with potential exposure to SPAC investments should ensure they have securities policies in place, along with a pre-qualified securities law firm, to actively monitor or audit their SPAC-related investments and analyze potential exposure to fraud or abuse. Experienced securities litigation counsel can provide timely advice on how to best maximize securities fraud claims involving SPACs.

About the Authors:

Darren Robbins is a founding partner of Robbins Geller Rudman & Dowd LLP, and over the last two decades has served as lead counsel in more than 100 securities class actions and has recovered billions of dollars for investors. Mr. Robbins was named *California Lawyer’*s Attorney of the Year and has been recognized as one of the nation’s top securities litigators by numerous organizations and publications, including *The American Lawyer*, which commended him for helping “set the pace for [his] peers,” and *Chambers USA*, which called him “a prominent figure in the field of securities litigation” and “one of the leaders of the plaintiff Bar.” Mr. Robbins was also recognized as a Litigator of the Week by *The American Lawyer* for his work in *In re Valeant Pharms. Int’l, Inc. Sec. Litig.* In 2022, he was awarded California Lawyer of the Year by the *Daily Journal*.

Danielle Myers is a partner in Robbins Geller Rudman & Dowd LLP’s San Diego office and focuses her practice on complex securities litigation. Ms. Myers is one of the partners who oversees the Portfolio Monitoring Program® and provides legal recommendations to the Firm’s institutional investor clients on their options to maximize recoveries in securities litigation, both within the United States and internationally, from inception to settlement. She is also part of Robbins Geller’s SPAC Task Force, which is dedicated to rooting out and prosecuting fraud on behalf of injured investors in special purpose acquisition companies. Ms. Myers advises the Firm’s clients in connection with lead plaintiff applications and has helped secure appointment of the Firm’s clients as lead plaintiff and the Firm’s appointment as lead counsel in hundreds of securities class actions, which cases have yielded more than $4 billion for investors.

Laura Stein is Of Counsel in Robbins Geller Rudman & Dowd LLP’s Philadelphia office. Since 1995, she has practiced in the areas of securities class action litigation, complex litigation, and legislative law. Ms. Stein has served as one of the Firm’s and the nation’s top asset recovery experts with a focus on minimizing losses suffered by shareholders due to corporate fraud and breaches of fiduciary duty. She also seeks to deter future violations of federal and state securities laws by reinforcing the standards of good corporate governance. Ms. Stein works with over 500 institutional investors across the nation and abroad, and her clients have served as lead plaintiff in successful cases where billions of dollars were recovered for defrauded investors.