New York City Comptroller
John C. Liu

STATEMENT

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COMPTROLLER LIU KEYNOTES NATIONAL ASSOCIATION OF SECURITIES PROFESSIONALS "CLOSING THE OPPORTUNITY GAP"

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LOS ANGELES, CA – New York City Comptroller John C. Liu today delivered the keynote address, "Closing the Opportunity Gap," at the National Association of Securities Professionals 22nd Annual Pension and Financial Services Conference.

Based in Washington D.C., the National Association of Securities Professionals advocates for policies that create equal representation and inclusion, and works to ensure that people of color and women are included in all aspects of the securities industry.

Below is the full text of the Comptroller's remarks as prepared.

Thank you Sam, for the very generous introduction.

And congratulations to Quinton Primo -- the Maynard Jackson Award recipient -- and CalPERS and Atlanta's General Employees' Pension Funds – who received Pacesetter Awards. I have always felt that being recognized by your peers is the highest honor anyone can receive. So congratulations again to all of you.

I want to thank Gwen Butler and the entire NASP Board of Directors for having me here today. For more than two decades, NASP has been at the forefront of efforts to advance diversity and expand opportunity in the financial services industry. As the 43rd Comptroller of the City of New York, I am glad that I too can be part of the important work in this area that so many of you have been doing for so many years.

One thing the recent economic turmoil has shown is that the largest firms with the best known names don't always have a monopoly on great ideas and sound judgment … and so why should they have a monopoly on managing assets? They shouldn't.

Yet, we all know that even though talent can be found among all different communities … access to opportunity is not.

Too many deals are still decided by who you know … not what you can do.

We know that small asset managers are caught in the old trap where they need a track record to get business … but business to develop a track record.

I refer to this as the "opportunity gap" … and until it is addressed talented professionals will never get the chance to show what they can do. Whenever the opportunity gap closes … new possibilities open. That is why I'm committed to changing the way the New York City Comptroller's office does business in three ways.

First, we are building upon our current efforts to utilize the talents of emerging managers.

Second, we are expanding opportunity so that all firms have a fair shot to compete.

And third, we are increasing transparency so that business is no longer done in backrooms.

One of my most important responsibilities as Comptroller is to oversee the management of New York City's pension funds. These funds have over $118 billion in assets and they represent the lives and futures of 700,000 retirees, beneficiaries and active City employees. This makes us one of the largest institutional investors in the nation.

This is a challenging economic time for institutional investors and the nation as a whole. Thankfully, we have emerged from the perilous economic environment that followed the recent financial crisis and are into a recovery. But the recovery has been slow up to this point, and is expected to remain that way for the immediate future.

In the near-term, the sluggish economic recovery presents challenges for public pension funds—because underfunded pension liabilities cost taxpayers and threaten budgets.

That's one reason I am committed to working with our Boards of Trustees to reform, restructure and reinvigorate the funds.

Together, we have been working to break free from the conventional wisdom by looking beyond traditional asset classes. The Funds are currently underweighted in areas such as emerging markets and real estate.

We have begun the process of branching out into alternative investments such as hedge funds. We are expanding our investments in distressed debt. And we are working to identify other promising areas including real assets, such as timber.

But part of our work to achieve superior performance requires us to do more than change what we invest in … It requires us to change who we invest with.

I believe that emerging managers are an integral part of the New York City Pension Funds' portfolio. I am proud of the leadership role my office and fellow trustees continue to take in providing opportunities for emerging firms to compete … grow … and—most importantly—add value for the Funds.

Diversifying the roster of firms who manage our pension dollars is more than just "the right thing to do." Those who view our efforts simply as a social initiative miss the point. This is not about gender, skin color or ethnicity. It is about the bottom line.

Our emerging manager program is designed for firms with under a billion dollars in assets managed, and we have been so impressed by how singularly focused these companies are on proving themselves to the marketplace.

They have exposed us to niche investment areas that are typically overlooked by large managers.

They have shown how their relatively small size can be an advantage, because it allows them to move quickly to seize opportunities.

And they have helped us incorporate diverse thought … diverse ideas … diverse talents … and diverse perspectives into the management of the Funds. These elements are key to “outside the box” thinking, which is so critical during these rapidly changing times.

Currently, we have $271 million committed to emerging managers in our real estate program. We have $1.4 billion committed in public markets. And we have $1.3 billion committed in private equity, which reaches approximately 50 emerging manager funds. These private equity dollars make up approximately 10% of the total capital commitments for the entire private equity portfolio.

Many of these managers carry out our investment strategies at the ground level … identifying the value and nurturing the growth of businesses in our nation’s emerging domestic markets.

We view this as an important focus because there are many communities throughout the country which have high growth potential, yet—for a variety of reasons—are undervalued by the marketplace. I am glad to say that many of the participants at this conference are in fact the very emerging managers we’re invested in … either directly or indirectly through Manager of Managers.

In many cases these investments are still in their early stages, but we look forward to seeing the emerging managers in our portfolio generate the substantial returns we expect from them.

And we are not stopping here.

We plan to build on this program with even greater commitments, which is why I am very excited to report to all of you that, working with our Boards of Trustees, my office a few days ago issued an RFP to expand our Manager of Manager initiative.

Issuing this RFP will allow us to find firms with the passion and desire to effectively manage assets for institutional investors like us. I am particularly pleased that the trustees have agreed to consider expanding this program to include additional asset classes such as international equity and fixed income.

Presuming that we find the appropriate mix of managers, it is my goal to expand our $1.4 billion currently under management to approximately $2 billion. In addition, we are looking at potentially increasing the definition of an emerging manager from $ 1 billion in assets under management to $ 2 billion so we can continue working with these successful and growing firms through this initiative.

We prosper and so do they.

By expanding the Emerging Manager of Manager initiative, my office and the Boards of Trustees will be creating opportunities for high-performing emerging managers to compete and grow. With this RFP I believe we are promoting the growth and evolution of the next generation of innovative money management firms. These firms will help us meet our obligations to our members, retirees and beneficiaries from day one. And our support will give these firms what they need to develop into even stronger performers for us in the future.

We can already point to examples where this is happening. Due to the success of our emerging managers program thus far, several of our emerging managers have graduated into our mainstream program due to the volume and dollar amounts of the assets they are managing.

For those that have done this, we have what we call the Developing Managers category. And currently, we have about $1.4 billion committed to this initiative and are delighted that we can continue to work with firms who have served us so well.

So I would urge all of you interested in learning more about the RFP we issued last week to visit our web site at www.comptroller.nyc.gov and go to RFPs under Quick Links.

Around the country, emerging manager programs are incubating a new generation of leaders in the financial community and helping build strong businesses. I am so proud to be involved in this effort—and everyone else involved should feel the same way. Together, we are creating partnerships that are building stronger, smarter financial markets and a better future for this country.

But while these efforts represent important progress … we all realize that more needs to be done to close the opportunity gap. That's why my office is working to tackle these problems in every way we can.

Often, so much of the opportunity gap comes down to a lack of access. Many small firms just can't get in the room to show what they can do.

That's why my administration is making every effort to open things up.

For instance, we have started hosting mentoring sessions with small groups of CEOs from MWBE firms in order to exchange ideas … experiences … and open the lines of communications between the Comptroller's Office and the investment community.

We are also committed to having an open door policy throughout our office. Take our Public Finance department, which issues bonds for the City in coordination with the Mayor's Office of Management and Budget. They will have introductory, get-to-know-you meetings with any interested and accredited firms, regardless of their size. Your calls to the New York City Comptroller's office will be returned.

Learning the ins-and-outs of New York City's debt is no simple task, and new firms often benefit greatly from simply sitting down with us and figuring out the lay of the land. And we benefit as well, because we get to establish relationships with talented up-and-comers.

But "opening things up" isn't just about making our office more accessible to emerging firms. It's also about broadly increasing opportunity and competition for everyone. When we make things more competitive, our bosses—the taxpayers—win.

In this spirit, my office, together with the Office of Management and Budget, recently issued RFPs for a Financial Advisor, Pricing Advisor and Swap Advisor. We always want to ensure that taxpayers get the most for their money, and these RFPs will help us make certain this is the case.

Plus, we think that opening these kinds of processes up to increased competition may result in doing more business with firms owned by women and minorities. In fact, we can already point to an example where this has happened.

About a year ago, New York City issued nearly a billion dollars in general obligation bonds. But rather than using the standard rotation of firms to select who managed the deal … we decided to open things up.

We held a "bake-off," inviting competitive bids. As a result, we attracted more proposals and superior structures. In the end, the minority-owned firm Loop Capital beat out bigger firms by submitting the best proposal. They ultimately co-senior managed the deal.

We only planned to sell $800 million worth of refunding bonds, but the sale was so successful that it reached $962 million. The strong demand for our bonds not only demonstrates public confidence in New York City—it also saved our taxpayers $84 million. That is the bottom line: when government draws from a wider talent pool, it means increased competition for city dollars and greater savings for city taxpayers.

This kind of process can also help talented new firms become stronger. Last year we successfully completed the sale of $210 million worth of refunding bonds for the City's Municipal Water Finance Authority, with Rice Financial, an MWBE firm, as senior booking-running manager.

Rice recently told us that having the Water Authority's vote of confidence in leading a deal for them has proven very valuable in pursuing new opportunities.

Up to that point, our transaction had been the largest deal the firm had senior managed. Shortly thereafter, however, they received two additional senior manager appointments, including their largest deal to date. They credited, in part, their experience senior managing our deal in helping them to win this additional business. In short, we got great results from a talented new firm, and in the process perhaps helped build their business. That is good for everybody.

One of the lessons of these stories is that everyone benefits from having an open government. In an opaque government, all bets are off. Inside players can get sweetheart deals and taxpayer dollars can be misspent without anyone hearing a word. That's why I'm firmly committed to making government more transparent.

Last year, I launched two online tools to track City government spending. My Money NYC accounts for all City spending, dollar-for-dollar. MWBE Report Card NYC shows how much each City agency spends with minority- and women-owned businesses. These efforts encourage City government to spend taxpayer dollars wisely and do more to increase opportunities for all

New Yorkers. Furthermore, they also show minority- and women-owned firms that they can trust New York City to offer them a fair opportunity to compete.

Along the same lines, we are also working to increase pension fund transparency. We have recently started webcasting pension fund board meetings. And pension fund performance data, which used to be available only in an annual report, is now posted on our website monthly. I know these sorts of things don't necessarily thrill the masses. One newspaper's headline about our webcasting initiative asked the question, "Who needs Ambien?" But if we want to make government more effective in serving its citizens and more representative in selecting its business partners, we have to open things up.

Opening things up means giving everyone a fair shot to show what they can do. And the value of getting that sort of chance is something I understand firsthand. I mean, to think that someone like me … an immigrant from Taiwan was able to come here to America, go to public schools, have hardworking parents, have a career in finance, run for office and actually get elected to be the first Asian-American citywide official in New York City. That shows you the promise of America—it is the place that will give you a shot.

If I hadn't gotten that chance—or any number of them—I know I wouldn't be here today representing New York City, the greatest city in the world. My condolences to Los Angelinos, Sacramentans, San Fransiscans, San Diegans, Atlantans and everyone else—they told me to be honest with you today.

More seriously, only together will we help minority and women-owned firms take their rightful place in our nation's economic mainstream. As an institutional investor, I view this as vital work.

It is common sense. It makes economic sense. And it translates into dollars and cents for pensioners and for taxpayers.

I look forward to working with you in the years ahead to achieve our shared goals … to seize opportunities … and to forge partnerships that benefit both the bottom line and the common good.

Thank you again.

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