New York City Comptroller
John C. Liu

NEWS RELEASE

PR10-10-097 October 21, 2010
Contact: Sharon Lee, (212) 669-3747 Page(s): 7

****

COMPTROLLER LIU KEYNOTES NATIONAL ASSOCIATION OF INVESTMENT COMPANIES ANNUAL CONVENTION

****

New York, NY - New York City Comptroller John C. Liu today delivered the keynote address, "Investing for the Bottom Line and the Common Good", at the 40th Annual Meeting and Convention of the National Association of Investment Companies (NAIC).

Founded in 1971, NAIC is an association of firms and individual investment professionals whose primary focus is investment in an ethnically diverse marketplace. Our mission is to empower women and minorities to succeed as investment managers, and to encourage wealth creation in underserved markets through private equity investments. NAIC member companies invest in privately held businesses that have a high probability of growth and the ability to generate significant returns for investors and shareholders.

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

Thank you Aubrey for your kind words of introduction … and thank you KPMG for your sponsorship of today's luncheon and this conference.

It is truly a pleasure to be with you today at your 40th Annual Meeting and Convention.

I want to thank your Chairman, David Perez … and your President and CEO, Samuel Boyd … for their leadership … and for inviting me to participate in this event.

And, many thanks to all of you … the officers … members … and supporters of the National Association of Investment Companies for all the good work you are doing on behalf of the financial industry.

I'm honored to be with you as you mark this important milestone … and celebrate this organization's decades of work to expand opportunities … revitalize inner cities … and build a better America.

Nothing bothers me more than when people suggest that investing in minority and women-owned firms — or underserved communities — means sacrificing returns and neglecting fiduciary duty.

The fact is that one can invest for both the bottom line and the common good.

Your organization's work has proven this over the last 40 years … from promoting small and minority business ownership … to empowering talented entrepreneurs.

But, we have much more to do as we begin the work of shaping the next 40 years.

We come together during a time full of extraordinary challenges.

Although our economy is no longer on the brink of collapse, all of us are still grappling with the traumatic aftermath of the fall of Lehman … the bailouts … and the other events that shook the financial world and the overall economy.

Since I was sworn into office on January 1 as Comptroller, meeting these challenges has been my mission.

As New York City's Chief Financial Officer, I not only provide objective analysis on the City budget, I sign the paychecks for more than 300,000 municipal employees. My office approves about $20 billion in City contracts annually, holds government agencies' feet to the fire through the audit process, and as part of the City's current 4-year capital plan will be issuing about $28 billion in bonds.

Additionally, I serve as chief investment advisor, custodian and a trustee to the New York City Pension Funds. We oversee a combined $107 billion dollars in assets making us one of the largest institutional investors in the nation.

As we manage the pension funds in this uncertain economic environment, I am always mindful that these assets represent more than just numbers … they represent the lives and futures of roughly 700,000 retirees … beneficiaries … and active City employees.

On a broader scale —underfunded pension liabilities cost taxpayers and threaten budgets which is why I have been working with our Boards since day one to restructure the Funds to excel in this volatile market … Lackluster performance is simply not acceptable.

The first step in this effort was to bring on a seasoned investment professional to serve as the Chief Investment Officer – Larry Schloss who many of you heard from yesterday.

He has brought a wealth of experience to the position and we work every day to identify innovative ways to invest our assets to achieve optimal risk-adjusted returns.

In order to reform and reinvigorate the Funds, we are 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 are also exploring the possibility of branching out into alternative investments such as hedge funds and expanding our investments in distressed debt … as well as working to identify other promising areas including real assets, such as timber.

As we move ahead, private equity will be a key part of our strategy … many of which are committed to investing in Emerging Domestic Markets.

We view this as important work because there are many communities throughout the country which have high growth potential … yet — for a variety of reasons— are undervalued by the marketplace.

As the economic influence of minorities grows … those who continue to overlook these markets will be left behind.

That is why we are eager to work with all of you in the years ahead to capitalize on these opportunities.

In addition to private equity, the Funds are investing in underserved areas through another vehicle — Economically Targeted Investments to help working and middle class families obtain affordable housing.

This program was created by the Funds' Boards of Trustees in 1982 … and I am determined to build on its past success.

Since I entered office, we have invested — or committed to invest— roughly $141 million dollars to create and rehabilitate nearly 3000 units of affordable housing.

These are investments that will impact communities across the city … from Brooklyn to the Bronx.

Our goal is simple … to help talented New Yorkers and their families— who are being priced out of the city they love—afford to stay and help build their communities.

Additionally, these investments create construction jobs and may lead to retail business opportunities for entrepreneurs.

The benefits are clear … Unfortunately — as I said before— there are always critics who charge that investments which are socially responsible cannot be financially responsible for pension funds.

Well, this is simply not the case. As of June, the 5 year return on the ETI program was 7.65 percent which, as part of our diversified portfolio, is great considering the volatile markets of recent times.

This is yet another example that it is possible to invest for both the bottom line and the common good … and the Boards and I will continue to work to enhance the Funds.

In fact, I recently came back from a week-long trip to Europe which included stops in Dublin and Belfast where my team and I were searching for quality opportunities … We will leave no stone unturned in our search for sound investments.

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

Recent years have proven that the largest firms with the household names don't have a monopoly on the great ideas and sound judgment … So why should they have a monopoly on the assets managed? They shouldn't.

Yet, we all know that even though talent is equally spread among different communities … opportunity is not.

That too many deals are decided by who you know … not what you can do.

That small asset managers are still caught in the old trap where firms need a track record to get business … but business to develop a track record.

I call this the "opportunity gap" and until it is addressed … talented professionals will never get the chance to show what they can do … and institutional investors will never fulfill their promise.

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

We want to incorporate diverse thought … diverse ideas … diverse talents … and diverse perspectives into the management of the Funds. Such measures are key to the "out of the box" thinking which is so essential during these times.

Whenever the opportunity gap closes … new possibilities open. That is why I'm committed to changing the way we do business in three ways.

First, by building upon our current efforts to incorporate emerging managers.

Second, we are leveling the playing field so that all firms have a fair shot to compete.

Finally, we are opening up government so that business is no longer done in the backrooms.

Let me begin by talking a bit about our current emerging managers program which is designed for firms with under a billion in assets managed. As I mentioned before, we view the use of emerging managers as key to achieving a diversified portfolio.

They have exposed us to niche investment areas that are typically overlooked by large managers. We have been so impressed by their singular focus to prove themselves to the marketplace.

Additionally, their relatively small size can be an advantage because it allows them to move quickly to seize opportunities. Emerging managers are not as bogged down by red tape and bureaucracy and are able to enter and exit out of positions more fluidly.

Let me take a moment to quickly run through a few of our key initiatives.

In private equity, we have committed 1.3 billion dollars toward approximately 50 emerging manager funds. This represents 11% of the total capital commitments for the entire private equity portfolio alone.

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're proud to say that many of today's conference participants are in fact the very emerging managers we're invested in … either directly or indirectly through Fund-of-Funds.

Those Fund-of Funds include Credit Suisse … Neuberger Berman … Fairveiw … and JP Morgan. In many cases these funds are still early in their investment stage, but we look forward to seeing the emerging managers in our portfolio generate the substantial returns we expect from them

In the public equities area, our emerging managers program has been extremely successful. Today, its current allocation is roughly $1.1 billion dollars and we are looking forward to building on this success with even greater commitments.

I am pleased to note that — owing to the success of our emerging managers programs 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.

Key to this effort is the Developing Managers component we have created for those firms who have produced good returns and graduated from the first program. Currently, we have about 1.6 billion dollars committed to this initiative and are delighted that we can continue to work with firms who have served us so well.

And, we have $186 million committed to emerging managers in our real estate program.

While these efforts represent important progress … we fully realize that more needs to be done to close the opportunity gap. For example, we are working to address other historic challenges like access … or lack thereof.

Many small firms just can't get in the room to show what they can do. On the flipside, public pension funds often don't have the resources to identify firms in the marketplace nor due the necessary due diligence.

We are working to eliminate these barriers and have started hosting mentoring sessions with small groups of CEOs of MWBE firms in order to exchange ideas … experiences … and open the lines of communications between the Comptroller's Office and the investment community.

Additionally, we are actively looking for new talented managers to work with. In fact, that is why Larry and I have come to be with you. We are eager to establish new relationships and strengthen existing ones with many of you.

We are also working to level the playing field not just with the Funds … but in all areas of City business. We do this by, again, thinking outside of the box.

For example, in July, New York City issued nearly a billion dollars in general obligation bonds. But rather go through the same old process … we decided to open things up.

We held a bake-off … inviting open competition. In the process, we attracted more proposals and superior rates. In the end, Loop Capital — a minority-owned firm from Chicago — ended up submitting the best proposal and co-senior managed the deal.

The sale was so successful that $962 million of refunding bonds were sold, up from the intended volume of $800 million. The strong demand for our bonds demonstrates public confidence in New York City and saved our taxpayers $84 million.

It is this kind of innovative thinking that has helped New York's capital program to thrive during such difficult times … attracting new investors including pension funds.

We think this is critically important … Just as we need to diversify our portfolio managers, we are seeking to diversify our investor base to lower our borrowing costs and save taxpayer dollars.

Earlier, I mentioned that I recently came back from Europe where — in addition to looking for investment opportunities in Ireland— I visited London and Zurich to talk to investors directly to pitch a bond offering.

I stressed that as other municipalities struggle … New York City represents quality and our story was well received. In fact, our recent bond issue broke records for international demand.

Of the $1.2 billion dollar bond sale, $123 million came from international orders … including $63 million from new international investors—both new highs.

I felt it was important for me to go myself … not only to tell New York's story but also because I want to send a signal to the entire investment community that New York's business will not be done behind closed doors.

It seems like integrity is becoming an increasingly rare commodity these days in the financial community. We all have heard about the pension corruption in recent years where access and relationships were sold at the expense of performance and returns.

No public pension fund can succeed if it betrays the people it's supposed to serve and the investment partners who play by the rules.

That is why I've taken a number of steps to enhance the integrity of the Funds including my refusal to take any campaign contributions from managers who are seeking to do or are currently doing business with the City.

On a broader scale, I have launched Checkbook NYC … a powerful new web-based tool that provides unprecedented access to view and track how New York City government spends money. And later this year, I will be unveiling another new tool called MWBE Report Card NYC … that will show how City agencies are complying with rules ensuring access to City contracts by Minority and Women Businesses.

By bringing this information out into the open, I seek to end the days when business is done in a cloak of secrecy. Doing so not only creates built-in incentives to save government money, but also shows minority- and women-owned firms that they can trust New York City to offer a fair opportunity to compete.

I am proud of the work my office has done to bring New York closer to the goals of fairness … diversity … and competition. Yet, I know that the Comptroller's Office alone cannot close the opportunity gap.

It's going to take a collective effort and I want to work with all of you to make it happen.

Even though diversity has become a coined phrase, not enough progress has been made. We must do all we can to accelerate the pace of progress … and to realize the promise and power of our potential partnerships.

Only together will we help minority and women-owned firms take their rightful place in the economic mainstream of the nation. As an institutional investor, I view this as necessary work.

It is common sense. It makes economic sense. And its impact will translate 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 are good for both the bottom line and the common good.

Together, we can create new partnerships that impact both people and profits.

Together, we can meet the needs of our urban areas.

Together, we can restore hope and opportunity in communities across the nation.

Thank you very much for inviting me to be here today.

March on for more progress!

###