Navigating Defined Benefit Investment Programs With the Best Options Ever

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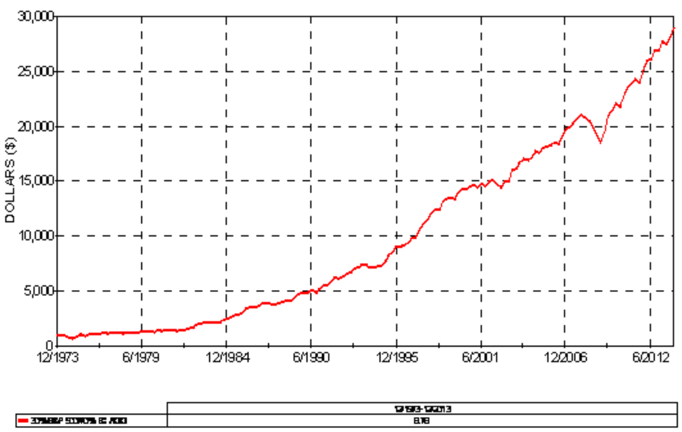
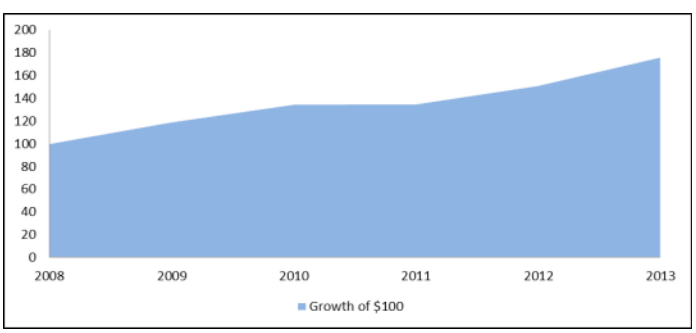
During the past 30 years, defined benefit pension plans in Florida have evolved from relatively simple fixed-income, low volatility investment programs. During this period, the secular decline of interest rates associated with falling inflation challenged trustees and their advisors to find alternatives to compensate for the lack of bond income. In 1978, a typical Florida pension fund had 70 percent of its assets allocated to high quality fixed-income securities or a similar allocation to mortgage based insurance contracts. The remaining 30 percent was invested in U. S. stocks. In fact, during the 40 years ending in 2013, this asset allocation achieved annualized returns of +8.8 percent.

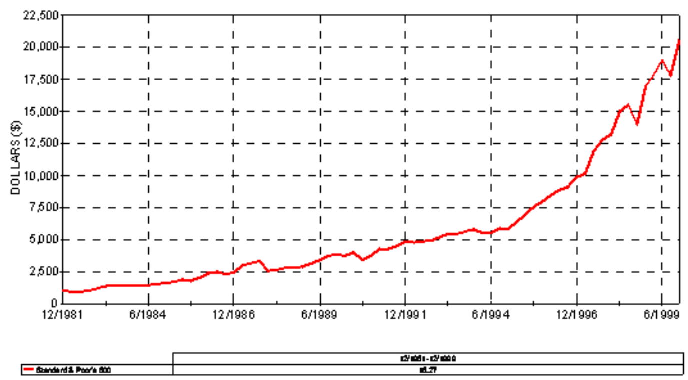


Many questions have been asked about the viability of defined benefit programs. During recent periods when rolling five-year returns missed the assumed actuarial rate of return due to poorly performing equity markets, additional contributions were required. Buying or investing during these corrections is smart and this is the self-correcting mechanism of Florida defined pension plans. In fact, during the past five years, when these contribution levels where high, Florida plans earned on average +12 percent per year.



While we understand that past performance is not a declaration of future results, it is this belief that has caused some to question the viability of defined benefit plans. The wide market swings during the past 10 years severely impacted defined benefit plans – causing results to fall short of the actuarial based return target. Therefore, the conclusion by some people is that meeting return expectations in the future is not possible. I beg to differ.

From 1972 to 1979, following the U.S. moving off the gold standard and the 1973 oil embargo, the returns of the S&P 500 averaged +3.2 percent per year, while commodities averaged +19.4 percent per year. People thought that equities were all but dead. But several years later in 1981, the U.S. stock market began an 18 year run that no one expected – averaging +18.3 percent per year.



History shows us that asset bubbles come and go, only to return again. Navigating through these periods requires a clear focus to determine which asset classes are becoming over-priced. The principles and methods used to identify such risks have not changed, but the investment options available to deal with these issues have flourished, becoming more available to defined benefit plans during the past five years.

Designing absolute return based investment programs is the primary objective for defined benefit plans. Achieving such absolute return targets, consistent with the plan's actuarial assumption rates, is more possible today as additional investment options offering uncorrelated risk/return profiles have become available.

The number of investment products designed to enhance defined benefit plans and meet their ever growing challenges has never been greater. These include: low cost exchange traded funds covering every asset class, emerging and frontier equity market products, low volatility hedge funds, private equity, currency hedged global bond funds, real estate investment trusts, master limited partnerships with daily liquidity, low volatility private real estate, convertible bonds, shareholder advocacy hedge funds, and floating rate structured bank loans. Even the product platforms for these asset classes have been designed to accept lower minimums, creating further accessibility for smaller accounts. The costs for these products have also trended lower as transaction commission rates have fallen 90 percent during the past 30 years.

Pension trustees, along with their investment experts, are now more equipped to take on the investment challenges that lie ahead. Defined benefit plans are and will remain an excellent retirement plan vehicle, as long as trustees provide themselves with the necessary resources, quality professional advisers, and remain well informed.

The FPPTA has played a major role in providing resources to pension trustees in Florida – through excellent education and certification programs. This success may be witnessed today among the many trustees who serve on pension boards and who contribute to well-funded, well managed plans.

Mr. Chambers founded Burgess Chambers & Associates in 1988 at age 32 and oversees all aspects of the firm. Mr. Chambers established BCA following a four-year rise to Executive Vice President of a nationally recognized investment counseling firm. He serves on the faculty of the Investment Management Institute in Greenwich, Connecticut, and the Florida Public Pension Trustees Association. Mr. Chambers has served as an arbitrator and judge for the National Association of Securities Dealers (NASD) in Tampa and has served on the Florida Bar Grievance Committee in Orlando. He is an associate member of the Association of Investment Management and Research (AIMR) and its Orlando Chapter. Mr. Chambers has published numerous articles, and has been quoted in U.S. News and World Report and Investment Management Weekly. He was formerly an Executive Vice President of an investment counseling firm and an executive with a major Texas based oil and gas exploration and production company. Mr. Chambers received his M.B.A. and B.S. degrees from Tulane University. He was a research fellow of the department of physics. He is the registered principal of the firm.