



# North Carolina State Pension's Secretive Alternative Investments Gamble: A Sole Fiduciary's Failed "Experiment"

## Highlights & Recommendations

### HIGHLIGHTS:

- **\$30 Billion in Secret Accounts:** In an unprecedented decision, Cowell has entered into agreements with a number of Wall Street money managers to keep secret from all stakeholders, including the General Assembly, where \$30 billion (35 percent) of North Carolina's Teachers' and State Employees' Retirement System (TSERS) assets are invested.
- **Pension Losses of \$6.8 Billion:** Cowell's political manipulation of the state pension plan and self-described "experiment" with high-risk alternative funds, including real estate, hedge funds and asset-backed securities has cost North Carolina \$6.8 billion.
- **Total Fees to Wall Street Skyrocket to \$1 Billion:** Benchmark estimates total fees paid to Wall Street money managers have risen 1,000 percent to approximately \$1 billion — at least half of which (\$500 million) have not been properly reported by Cowell to the General Assembly and the public.
- **Treasurer's Reports Violate State Law:** North Carolina law mandates full disclosure of all direct and indirect investment management and placement agent fees in the Treasurer's Government Operations reports to the General Assembly. Cowell has failed to make these disclosures.
- **Potential for Corruption:** Pay-for-play has long been a problem with the state's pension system for more than a decade and under Cowell the potential for these quid-pro-quo relationships has grown.

### RECOMMENDATIONS:

- **Eliminate the Flawed Sole Fiduciary Governance Structure:** There is broad national consensus that the sole fiduciary governance structure for a state pension makes no sense. The current structure of the state treasurer as the state pension's sole fiduciary should be replaced with fully transparent board with members from the General Assembly, investment experts, state employees and state retirees.
- **Formally and Completely Audit TSERS:** The nation's seventh largest public pension has no audited financials. An audit of TSERS by State Auditor Beth Wood, which would improve oversight and management of pension investments, reveal deficiencies (including fraud and other malfeasance), and produce savings, is decades overdue.
- **End the use of Placement Agents:** TSERS is an \$87 billion fund. It should not be secretly squandering \$180 million in avoidable placement agent fees for conflicted and unreliable investment advice.
- **End the North Carolina Nexus Investment Program:** TSERS local investments through private securities firms and in private corporations based in North Carolina are rife with opportunities for political influence-peddling and dubious economic benefit. Further investigation is warranted.
- **Request SEC Intervention:** An investigation by the U.S. Securities and Exchange Commission is recommended to look into potential fiduciary breaches and violations of law by Cowell and the Wall Street money managers being paid by TSERS.

**Benchmark Financial Services Inc.** has pioneered the emerging field of forensic investigations of pensions and has conducted investigations worldwide involving in excess of \$1 trillion. Benchmark's founder, **Edward "Ted" Siedle**, is a former SEC attorney and nationally recognized leading authority on pension wrongdoing. Siedle writes a "Financial Watchdog" column for [Forbes.com](http://Forbes.com).



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