The city of **Atlanta**'s biggest pension plan has kept some of its weakest money managers for a decade or more --- even though their performance has chronically lagged behind the fund's own benchmarks.

Partly as a result of hanging on to the underperforming firms --- most of which are based in **Atlanta** --- the $1.1 billion pension plan has often fallen short of its overall profit targets. That could be costing taxpayers millions of dollars in investment returns that never materialized, as well as shortchanging the 7,000 employees and retirees covered by the plan.

The **Atlanta** General Employees Pension Plan has retained five of its 13 money managers for more than a decade, including some that have regularly fallen short of their performance targets.

One of the pension's money managers, **Atlanta Capital**, has missed its benchmarks for most time periods going back 10 years, according to recent pension performance reports. But the pension fund's board of trustees didn't put **Atlanta Capital** on probation until early this year.

Atlanta Capital manages about $80 million in bond investments for the pension plan.

Other money managers for the general pension plan, including **Atlanta**-based Earnest Partners and Globalt Investments, have been put on probation multiple times over the past decade, and continue to frequently miss their marks. Each collects up to hundreds of thousands of dollars in management fees annually.

Another firm, New York-based Madison Square Investors, has missed its benchmarks for most time periods going back five years, often by big margins, but hasn't been put on probation.

Together, the four firms manage about $339 million, or more than 30 percent of the **Atlanta** general staff's pension assets. They collected a total of $1,114,460 in management fees last year, or 36 percent of the total paid by the city's three pension plans.

None of the firms agreed to an interview for this story.

Alfred Berry, a policy analyst for the **Atlanta** City Council and chairman of the $1.1 billion General Employees Pension Fund, blames the turmoil on Wall Street for shortfalls that continue to hobble the city's pension plans.

"We are doing the best we can, " Berry said. "We do not control the men and women on Wall Street, who play games with the lives of the men and women on Main Street. . . . I don't think they care about us."

Berry, who has been chairman of the general staff's pension board for eight years, said the board relies on investment consultant Gray & Co. for advice, but has been diligent about monitoring money managers' performance and dropping sub-par ones, if its consultant advises them to.

If a money manager's performance lags for three quarters in a row, Berry said, the firm is put on probation.

"They get a letter from us and know they are on probation and have to up their game, " he said.

The board may consider firing the money manager after a year. But the pension board may keep the firm if it's good at controlling risk, he said. Also, if it beats its goal in a later quarter, the "clock rewinds" and the firm comes off probation, he said.

"If they show improvement, we try to stick with them, " he said.

Pension plans should consider firing money managers if their performance has been lackluster for more than three years, said Nancy Webman, editor of Pensions and Investments, a publication that covers the money management industry.

But it's not unusual for public pension plans to take a long time to fire laggards, she added. "I don't think that it's ideal."

Deep financial hole

Like many long-term investors across the country, **Atlanta**'s three pension plans were hit severely by the 2007-2009 stock market crash. The plans, which cover about 11,700 general staff, police, firefighters, retirees and their families, have seen double-digit investment returns since the stock market bottomed in 2009. They now have about $2.3 billion in assets.

Still, all three pension plans remain in a deep financial hole. They're roughly $1 billion short of the assets needed to cover their long-term pension promises.

Atlanta's employees and taxpayers are having to make up the difference. Last year, to stanch the pensions' growing drain --- which had grown to about a fifth of the city's budget --- the city overhauled the pension plans to reduce new hires' benefits and increased other employees' share of pension costs.

In the midst of these challenges, pension officials have also been making changes to cut investment costs and boost expected profits. They're asking money managers to lower their fees and use more so-called "index" funds that charge lower fees. They're also under pressure to hire "active" money managers who can pump up returns by beating the market.

That sometimes means deciding more quickly to fire money managers whose performance has been below par, said Maj. Jeff Glazier, who sits on the **Atlanta** Police Officers Pension Fund's board, which oversees the plan that has $741 million in assets.

The police pension fund recently fired one money manager, Chicago-based Advisory Research, after two years of managing about $33 million worth of stock investments.

"If you have an underperformer, there's no reason to hold on to them, " said Glazier, director of **Atlanta**'s police academy. "There's plenty of others out there that want your business."

Under the pension plans' performance standards, over a five-year period, the money managers' investment returns are expected to exceed some market index by a certain percentage, after subtracting managers' fees.

The managers' performance is usually also expected to rank in the top 40 percent to 50 percent of their peers.

Still, a lot of variables besides money managers' performance affect investment results. They include the pension plans' choices on the mix of assets, timing and ability to weather the market's ups and downs.

Firefighters' plan better

Atlanta's pension plans have had varying luck at hitting their targets. Like the money managers, the pension plans also have targets based on the overall market returns.

Though the general staff's pension plan has rebounded handsomely since 2009, it has nevertheless lagged behind its benchmark returns by as much as 3 percentage points annually. That equals about a $30 million-a-year shortfall.

Over the past decade, the shortfalls have been smaller ---less than half a percent a year. Still, that means the pension came up short by about $4 million a year on its investment returns over the past decade.

The police officers' pension plan has had a similar record.

The firefighters' pension, on the other hand, has generally exceeded its targets and barely fell short over the past decade.

The three **Atlanta** pension plans are overseen by separate boards of trustees --- each composed of several employees, retirees, city officials and council members. Although they have the same investment consultant, and some of the same city officials sit on all three boards --- they act independently, and that shows up in their choices of money managers and investment results.

Two years ago, for instance, the smaller firefighters' pension fund, with $524 million in assets, was the first to shift 16 percent of its money into a low-cost index fund that charges about one-sixth of the fees of most money managers.

Also, the firefighters' pension has kept only one money manager for as long as a decade --- a firm that has regularly beaten its performance goals by substantial margins.

The other two pensions, on the other hand, were slower to shift to low-cost index funds, and the general fund has kept laggard firms longer.

Indeed, while the board at the general staff's pension plan has fired some money managers, it has kept others for years that repeatedly were put on probation.

Since 2000, the pension board put **Atlanta**-based Globalt on probation four times; Chicago-based Kenwood three times; Houston-based Davis Hamilton Jackson twice; and **Atlanta**-based Earnest Partners, twice, for different investment portfolios.

Of those, the non-**Atlanta** firms were later terminated while Globalt and Earnest Partners still manage about $70 million and $80 million, respectively, for the pension fund.

Public pensions often favor some local firms, said Webman, with Pensions and Investments. "Everybody generally tries to do that, " she said.

Most of the time, she added, it doesn't affect returns very much. "Some are going to be good. Some are going to be bad."

Berry, with the pension plan, said the pension board doesn't have a formal policy to favor locally owned firms. But as long as the firm is well qualified, he added, "we try to mirror the city's policy to a degree" and try to award some business to Georgia-based or minority-owned firms.

"It is the city's money, " said Berry. "We would like for [local and minority-owned firms] to get some business, " he said, "but performance matters."

Poor Pension Fund Returns

The city of **Atlanta**'s largest pension fund --- and one of its worst-performing --- has stuck with some of its money managers for years despite sub-par performance. These two money managers for that pension fund are below their investment targets for at least the past five years. The negative percentage figures shown here represent how far their annual returns have fallen short of their goals. Zero indicates the point at which they would have hit their target return.

* Figures are as of March 31. They are annualized returns above or below the money managers' performance targets for each time period, after subtracting money managers' fees.

** **Atlanta Capital** has managed money for the pension fund for at least 10 years. Madison Square has not.

Source: Gray & Company, staff calculations

UNMATCHED COVERAGE

AJC business reporter Russell Grantham has written about pension issues many times, including a series last year on the financial condition of state and local government plans, including the city of **Atlanta**'s. Today, Grantham takes a look at the lagging investment performance of some money managers hired by **Atlanta**'s biggest pension fund.