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- **We talk to Vicki Fuller, CIO of NY's $200 CRF**

Vicki Fuller, New York State Common Retirement Fund, and the Quest for the Seven-Percent Solution

Vicki Fuller, chief investment officer at the country's third-biggest public pension -- New York State's Common Retirement Fund – has announced her retirement by the end of this summer of 2018.

We just had a chance to chat with her about her life and times. But first, here are a couple of mini-charts to put everything in perspective.

As of September 2017, there were only three U.S. pensions with over $200 billion in assets – two in California, and one in New York. Here's how Ms. Fuller's fund stacks up against the Californians.

AUM and trailing net multi-year returns as of 30 June 2017

CIO	Fund	Tenure	AUM $bn 30Sep2017	1yr	3yr	5yr	10yr

Vicki Fuller	**NYSCRF**	Aug 2012 - Jul 2018	**$201.263**	11.48	**6.17**	8.35	**5.59**
Chris Ailman	**CalSTRS**	Oct 2000 – Jul 2018	**$216.193**	13.40	**6.30**	10.10	**5.00**
Ted Eliopoulos	**CalPERS**	Feb 2014 – Jul 2018	**$336.684**	11.20	**4.64**	8.80	**4.40**

We included 10-year returns, although only Mr. Ailman was aboard for the whole decade. Indeed, he's still motoring along with almost 19 years on the job.

Also, Mr. Eliopoulos recently announced that he, too, will depart this summer; so, we'll soon see CIO turnover at two of the big three.

Ms. Fuller can't claim credit for the entire 10-year number, but it's interesting to see that New York State does slightly lead the Californians over the longer haul.

The other critical stats for pensions are the assumed rate of return and funded status.

Assumed rate of return and funded status

CIO	Fund	Tenure	Assumed Return Percent 30 Jun 2016	Funded Status Percent 30 Jun 2016
Vicki Fuller	**NYSCRF**	Aug 2012 – Jul 2018	7.0	93.70
Ted Eliopoulos	**CalPERS**	Feb 2014 – Jul 2018	7.5	73.10

Chris Ailman	**CalSTRS**	Oct 2 000 – Jul 2018	7.6	68.50

Assumed rates can differ considerably depending on local financial, actuarial, and political considerations. (In this context, a few hundred basis points difference really is considerable.)

As finance geeks know, the assumed rate of return is also the discount rate used to calculate the present value of the plan's projected liabilities. So, a higher ARR makes that funding-status number look better, while a lower one makes it look worse. And, in general, well-funded pensions can better afford a lower ARR, which is the pattern we see here.

On the other hand, a higher ARR makes the CIO's life harder; and some observers worry that it might even encourage the investment office to take on more risk than they should to hit a higher hurdle rate.

The CIO has no control over her ARR; it's just handed to her by the powers-that-be. But, beating that rate is the essence of her job; hence, our Harry Potterish title. As Ms. Fuller points out, however, there's no magic available to assist her in this quest.

Finally, since we're all about performance and pay, here's what these excellent CIOs earned for their efforts in calendar 2017, according to public data-bases.

Performance and Pay, calendar 2017

CIO	2017 Base	2017 Other	2017 Total
Vicki Fuller	$359,697	$0	**$359,697**

Chris Ailman	$520,541	$272,685	**$793,226**
Ted Eliopoulos	$552,843	$314,335	**$867,178**

Those "other" items aren't specifically characterized as bonuses in the databases, but that's what they are. (This is W-2 income only, and omits any non-W-2 items, which may be significant.)

With the search for a new CIO underway, pay is a live issue for CalPERS. At their most recent meeting, the board heard from Andrew Junkin, president of Wilshire Associates, who said the top third of CIOS make about $1 million.

He said: "You are going to have to pay for talent [and] the top third is a reasonable group to compare against."

Board member Richard Costigan said that CalPERS will not pay top-quartile rates, like some Canadian funds; but that current compensation "is not attracting quality candidates".

See this piece from Top1000 funds last month, CalPERS seeks ideal pay formula.

And, in the end, the board voted to offer the new guy more money. With bonuses, he or she will have the opportunity to earn up to $1.77 million annually. That’s twice Mr. Eliopoulos’ $885 thousand cap.

The two Californians do run larger funds with bigger staffs than Ms. Fuller, but their performance is not remarkably better. And the market-price for talent shouldn't be very different from coast to coast.

When all is said and done, the differential on that chart between Ms. Fuller and her male counterparts still looks pretty stark.

Something for New York Comptroller Tom DiNapoli to think about as he looks for his own new CIO.

Unlike those West Coast CIOs – both of whom had long careers in public pensions and/or government service – Ms. Fuller's background until recently was all in for-profit asset management, which is a bit unusual at the big pensions.

She's now had six years working for the Comptroller's office in Albany; but before that there were twenty-seven years on Wall Street, including a long run at AllianceBernstein.

We were delighted to talk with her recently. She had plenty to say about her personal challenges, women in finance, the craft of money-management, and the next step in her career.

Skorina: Vicki, you earned your B.A. at Roosevelt University, and then got an MBA at University of Chicago.

You had three decades on Wall Street, capped with running $200 billion in pension money. Not bad for a Chicago girl. I've lived there and got my MBA at the same school; and that city never fails to amaze me.

I mean, the state is broke, the city is almost broke, and yet whenever you're there, you see that the Loop is sizzling, there's construction everywhere, fantastic restaurants; and always more new strivers crowding into town. What do you think keeps it going?

Fuller: Charles, I've often wondered myself what keeps it ticking.

I think it's because it's still pretty affordable relative to Boston, New York, or San Francisco; and it's a great place to start a family and career. Also, there's tremendous civic support from business and the community. Of course, there comes a time when you wonder if you can still take the pounding of the weather. Winter is tough. It's my hometown; I have family there, and I go back often. But I doubt I would move back permanently.

Skorina: I've heard that your mother was a tough-minded bookkeeper, and that she had a big part in your career choice.

Fuller: She worked full-time and had a good head for numbers, so I grew up thinking it was perfectly normal for a woman to be good with math and understand business. I loved my philosophy courses in school, but one day (actually more than one) my mom asked me if I was planning to eat philosophy! And, of course, she had a point. So, I made the big shift to math and finance, and discovered I was good at it.

Of course, I had some doors opened for me; and a bit of luck, like anyone else. After two years at Morgan Stanley, I was recruited by Standard and Poor's for their bond-rating area, which was more great training. And then Equitable Life recruited me for their new high-yield bond desk, just as high-yield was becoming a juggernaut.

It was the golden age of junk bonds, and I was in the middle of it; an amazing period!

Skorina: Bond people are definitely different. I interviewed Rukaiyah Adams, CIO at Meyer Memorial Trust, and she had a somewhat similar track, moving into fixed income and excelling there after starting in a legal career. What is it about bond versus stock investors? I've sometimes referred to it as "reality bites," versus "smoke and hope." What do you think?

Fuller: Let's look at it this way, Charles: There is really not much upside with grade A debt – these strange years of financial repression aside -- but you can still wind up with big losses: 20 percent on the dollar, if your analysis is wrong. Bond managers deal with much more asymmetrical risk than stock investors. So, we obsess over cash flows, repayment scenarios, and security. Bond investment involves more math than hope. There are no unicorns in that world.

Skorina: I recruit CIOs and asset managers for a living, but I've been thinking a lot lately about the viability of the CIO's job and their role in this new world of cheap beta and mainstream, mega-private equity firms. Do most tax-exempt institutional funds really need a CIO and staff anymore, given that a handful of global index funds and private equity firms seem to offer a cheap, easy alternative to an internal investment office?

Or, if you really need that expertise; outsource to one of the many hungry OCIO firms with highly-credentialed staff and relationships. (If you do, you need our list!)

What do you think? Am I going to be out of a job?

Fuller: It's a good question Charles, and it's true that asset-owners have options today that weren't readily available until recently. But, I think your recruiting business is safe for now.

I would value the CIO's role this way: Yes, active management has taken a pounding for the last seven years and yes, it's been even tougher than usual to beat the market. But here at New York Common, we have a seven-percent payout rate fixed by law, and I'm faced with treasuries paying two percent.

Cheap beta is not going to get me to where the politicians and taxpayers expect me to go. That road does not run through indexing, not for pension funds in the real world.

I have to try to close the gap between what the fund is required to pay its retirees, and the cash rate. No robo-advisor or ETF is going to get me what I need: a seven percent return.

Long-term equities might give me two-to-three, which gets me to a five-or-six percent return. But then we're into the murky, subjective, world of risk. How much equity should we take on, and how much risk is politically prudent?

I'm pleased that the fund's annualized returns have been well over 8 percent since I joined NY Common. But I had some tailwinds along the way and our equity bucket was 58.1 percent as of last December. We have lowered that to 50 percent currently and upped our allocation to 30 percent for all alternatives. We think that's prudent in light of our needs, but it's ultimately a judgement call.

Taxpayers don't want to pay more taxes, and retirees expect their checks. But to keep them both happy we in the investment office have to invest as close to the efficient frontier as we can get, given our constraints.

I manage $200 billion, and every basis point I can get is real money which the tax payers are not on the hook for. That's reality, and I think the CIOs who can get that done will be around for a while.

Skorina: Do you mind if we touch on the role of women in finance? I've talked to a bunch of female CIOs – Kim Lew at Carnegie Corporation, Amy Falls at Rockefeller University, in addition to Rukaiyah Adams – about the bumpy roads they faced. How bumpy was your road?

Fuller: I'm guessing that in my case you're actually asking two questions Charles. How did I fare as a woman in finance; but, also as a minority woman in finance?

Landing in high-yield helped me a lot, I think. I was learning fast about new products and how to look at them. Also, as a bond analyst, I had to meet treasurers and CFOs, and even CEOs at a very young age.

I knew bonds and how to rate them. I understood the language and knew what questions to ask when I faced higher-ups. Fortunately, I was able to deal with my fears and insecurities (and I certainly had them) and learn how to handle the meetings. I learned to launch my inner analyst and detach myself from my personal anxieties.

Being forced to do that was tremendously valuable.

One more point Charles, regarding the other, implied, half of your question. Let's be honest. As an African-American woman, I knew there was going to be more attention on me, my work and my work ethic. And that helped me work even harder and longer. Because you never, ever, wanted your bosses, colleagues or clients to think that maybe, just maybe, you got here because of your race.

And I think that holds true for all women who succeed in their jobs. We know we have to work harder and longer for what we want. It's just the way it is.

Skorina: Any advice for young women beginning a finance career?

Fuller: I've been a manager myself, Charles. I've hired, and managed women and I've observed them in business for forty years. Women make excellent analysts. But they are too often reticent to speak up when they should. They tend to be too deferential. The men will march right up to the table (whether or not they know what they're doing!) while the women hang back. Those are habits they have to unlearn. Making decisions with money at stake requires confidence and resilience.

I tell women in private that if you ever feel like crying in a business setting, bite your lip.

Skorina: I remember Amy Falls telling me that when she was at Morgan Stanley, the women would show up in the morning and basically work at their desk all day. But the men, usually after lunch, headed out on the floor or around to other offices to network and meet other associates and higher-ups.

Fuller: That's another part of it Charles. We own our career, but we have to promote our brand. Be proud of it, don't be shy.

Skorina: Circling back to your job at New York Common and my questions about active management versus the rise of robo-CIOs. How would you describe your value added?

Fuller: There is a lot of strategy and tactics involved in public-pension management. I have constituents, just like a politician. In fact, politicians are one of my constituents! I have to deal with tax-payers, municipalities, and the legislators, not just external investment managers. It's not just trying to get seven percent. My decisions have to be defensible and explainable.

Once we work out the policy portfolio, we have to work down a lot of decision trees.

We have to take some equity risk to have a chance to come close to our return goal. But, then: how much of that equity should we index and how much should we put into active management? That, in turn, depends on our global allocation.

Outside the US, active management and factor-based investing become more important than it is domestically.

So, it's fine to say let's index and go home. Some indexing may be useful, but what do you index and how much? And which instruments should we use? Then there is the whole, wide, unavoidable world of alternatives like private equity and real estate. How much, and invested with whom?

I worry a lot about what could go wrong. And there is always the possibility that we might get caught in a problem of not of our own making. When things go wrong, politicians and the media want scalps. A robo-advisor isn't much help when you're being grilled by the press.

The role of CIO will survive for some time to come.

Skorina: I feel better already! Last question: what's your next act? Board work? Travel?

Fuller: That's evolving, Charles. I'm in discussions regarding a few board seats, but the fundamental question I keep asking myself is: why do they want me, specifically. How can I be useful, and will the work really be rewarding?

I'm not sure yet. Until now I've been focused on money-management. I've had to be.

Now I have the luxury of pulling back and asking myself what I will really enjoy doing with my time. Time is the most precious commodity of all.

Skorina: Very true. And, thank you, Vicki. It's been a pleasure.

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