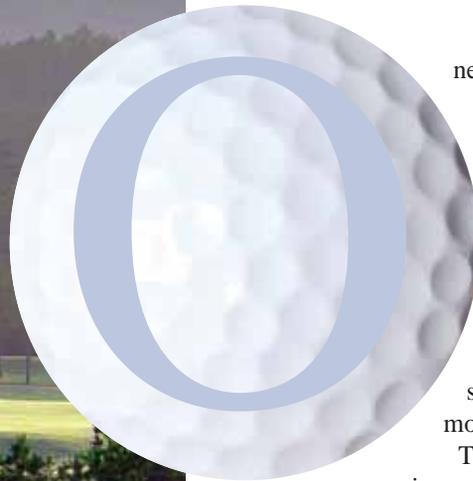


Alabama's Ace Investments

Out-of-the-ordinary investments pay off for Alabama's retirement system

By Jenny Price



One of the largest office buildings on the island of Manhattan—55 Water Street—doesn't belong to Donald Trump or any other larger-than-life New York City real estate mogul.

The 54-story tower near Wall Street is the property of the Retirement Systems of Alabama, the pension fund for nearly 300,000 public workers and retirees. RSA bought the building at a fire sale price a decade ago; today it's worth more than \$800 million.

The unorthodox investment for Alabama's pensioners is part of a strategy that has not only made a name for its leader, David Bronner, but also increased the fund's assets from \$500 million to more than \$26 billion during the past 30 years.

Bronner said he had to go beyond traditional money management of the retirement funds when he took over RSA in 1973. The fund did not have the money it needed to meet its future obligations and the state of Alabama, which he said owed RSA more than \$1 billion, was struggling economically and was not a prime destination for travelers or big business.

"I had a quarter for every dollar I owed people," Bronner said.

Since then, the retirement system has actively invested in developing Alabama's economy, including a statewide system of public golf courses, a cruise ship terminal in Mobile and major office buildings in Montgomery, the capital city.

The Renaissance Ross Bridge Golf Resort and Spa in Birmingham, Alabama, the newest addition to the Robert Trent Jones Golf Trail, will open this summer. Photograph by Lawrence Michael Clemmer

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—David Bronner

First Stop: New York City

When Bronner took over the fund, he turned his attention to managing its stocks and bonds but also looked for other ways to bolster its assets so he could use the retirement system as a tool to impact Alabama’s economy.

“I had to have a different philosophy,” Bronner said. “The stronger I can make the state of Alabama, the stronger I can make the pension fund.”

That meant looking outside Alabama for investments that would allow the retirement system to buy in for a cheaper price with the potential for a larger payoff. RSA started by investing in Consolidated Edison bonds in 1975, when New York City was on the verge of a financial collapse, which led the pension fund to become the utility’s largest investor.

During a financial crisis in the late 1980s, RSA stepped in again to buy \$200 million in New York City bonds. And later, the system was able to buy the Water Street building for “29 cents on the dollar,” Bronner said.

“It’s just phenomenal, the returns we’ve gotten off that,” he said.

Focusing On Alabama

While Alabama’s retirement system has made investments away from home, the fund has also made significant efforts to build up the state through projects that promote tourism and other economic development.

In the 1980s, RSA funded a \$12 million Wal-Mart distribution center in 1985 in northern Alabama and financed a \$48 million state complex building project.

In 1996, the retirement system spent \$2.5 billion to purchase Raycom Media, which owns about three dozen television stations in 19 states and Puerto Rico and now has headquarters in Montgomery, Ala. One year later, RSA invested \$1.8 billion in Community Newspaper Holdings, which publishes 295 daily, weekly and semi-weekly newspapers.

Once the retirement system had control of the newspaper company, it moved its headquarters from Kentucky to Birmingham, Ala.

Bronner said he looked to protected industries, such as newspapers and television, which had large cash flows “instead of having

everything subject to being beat up on Wall Street.” He said those purchases also provided a vehicle to promote the state through millions of dollars in free advertising.

Build It, People Will Come

RSA continued Bronner’s mission to raise Alabama’s profile by looking to another surprising venture: golf courses.

The retirement system invested \$180 million in a chain of two dozen golf courses designed by renowned architect Robert Trent Jones. A half-million people a year play the golf trail, which is named for Jones. The New York Times called the trail “some of the best public golf on Earth” and Golf Digest ranked Alabama as one of the “Top 10 States” for 2002-2003.

In 2003, the golf trail provided RSA with a 14 percent return on its investment, a rate that dropped to 4 percent last year due to construction of two additional courses. Tourism now produces more than \$6.8 billion in revenue for the state of Alabama, compared with the \$1.8 billion it brought in before the trail was built, according to RSA’s 2004 annual report.

Lee Sentell, head of the Alabama Bureau of Tourism and Travel, said “people laughed” when RSA first announced plans for the courses, but the project has had a major impact on the state’s image. When Sentell attended a travel trade show in London several years ago, people walked by, saw the Alabama sign and tried to think of what they knew about the state.

“Their reaction was usually ‘George Wallace,’” he said. “The last time I did the show people walked by, saw the Alabama sign and said, ‘Golf. Robert Trent Jones.’”

Along with the golf courses, RSA has invested in hotels and two upscale retirement communities, to try to attract retirees from other states and keep Alabama seniors from moving elsewhere.

Bronner and golf trail officials also contend the courses, which began opening in 1992, made a difference in helping convince Mercedes, Honda and Hyundai to locate new plants in Alabama. The state is projected to produce 760,000 vehicles in 2005, with auto companies



The 35-story RSA Battle House Office Tower, under construction in Mobile, Alabama, will be the state's tallest building when completed.



and their suppliers employing nearly 40,000 workers, according to the Alabama Automotive Manufacturers Association.

Governors from other states have sought Bronner out to learn more about what the retirement system has done in Alabama, but he said he stresses to them that results take time.

“Lots of things that I’ve done have taken me a decade to do. You—as a politician—you want to do it tomorrow,” he said. “It’s very difficult to do huge, long-term things.”

Not Without a Fight

Bronner’s office is filled with editorial cartoons critical of his efforts to move ahead with nontraditional investments for the retirement system’s funds. Over the years, he said newspaper publishers have tried “to have my head roll.”

“We had tons of legislative battles and special sessions to reform.” Bronner recalled. “We just kept moving and we obviously moved in the right direction and got there.”

The retirement system’s members support the decisions and investments Bronner has made, said Mac McArthur, executive director of the Alabama State Employees Association since 1998. McArthur gave Bronner and RSA “high marks” and said pensioners are comfortable with the retirement system using a small part of the funds for unusual and creative investments.

“They are aggressive. It’s a very small part of their portfolio, but they are aggressive,” McArthur said.

McArthur also credited RSA for obtaining a \$111 million settlement for losses from its investments in WorldCom, which collapsed two years ago after an \$11 billion accounting scandal.

The settlement amount was 90 percent of what RSA was suing to collect; Bronner noted in the retirement system’s 2004 annual report that the “normal settlement” in such cases is usually five to 10 cents on the dollar.

Owning US Airways

Some investment experts began to question RSA’s methods when in 2002 it offered a \$240 million investment and \$500 million in financing to keep struggling US Airways afloat. RSA also agreed to slash payments for leases the fund already held on \$340 million worth of US Airways aircraft. The deal made the retirement system majority shareholder in 2003 and Bronner the airline’s chairman.

“It’s not a whole lot different than when I bought New York City real estate,” Bronner said. “We often go into an industry when we think they’re pretty well beat up. This one got a little more beat up because of oil (prices).”

In September 2004, US Airways filed for bankruptcy protection for the second time, posing a threat to the retirement system’s investment. More recently, Air Wisconsin Airlines has offered to loan the airline \$125 million, about half of what US Airways has said it needs to get out of Chapter 11 status.

“Even though we haven’t bailed out on them, we’re looking at them,” Bronner said. “We’re going to have to make a decision in the next few months whether we put in more money or what we’re going to do with the thing.”



David Bronner

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Still, Bronner said RSA remained on solid ground because the money the fund had invested in the airline was less than 1 percent of its total assets.

He also said the state and the fund benefited from RSA's interest in US Airways because it led to more airplanes being serviced in Alabama and provided an avenue for cross-promoting the airline with the state's tourism destinations, such as the Robert Trent Jones Golf Trail.

The RSA's Web site also urges state employees and retirees to take advantage of exclusive discounts on airfares.

The State Of RSA

Despite US Airway's financial woes, RSA's net investment earnings totaled \$5.3 billion over the last two fiscal years and the system is about 95 percent funded.

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Norman Stein, a law professor at the University of Alabama who studies employee benefits and is a member of RSA, said it's important to consider Bronner's more unusual undertakings in the context of the whole portfolio.

"Some people may believe you shouldn't commit even a small percentage of the portfolio to high risk, potentially high return, investments and I think he's shown you can do that if you do it cautiously and conservatively," Stein said.

Looking Ahead

RSA isn't slowing down when it comes to buildings projects in the state.

In October 2004, Carnival Cruise Lines began porting one of its ships, "The Holiday," at a terminal the retirement system built in Mobile. RSA also pledged several million dollars in marketing each year to support the terminal.

The retirement system also is investing \$162 million to build the RSA Battle House Tower in Mobile, which at 35 stories will be

the tallest building in the state and will feature a lighted crown visible from 30 miles away, according to the project's architect. The project also includes renovating the adjacent 250-room Battle House Hotel, a historic landmark.

In Montgomery, RSA is partnering with the city to build a four-star hotel and convention center that is expected to anchor a revitalized downtown and Riverfront District in Alabama's capital city.

"It's something that, honestly, I don't believe that we would have been able to achieve very rapidly from the private sector alone," said Randy George, president of Montgomery's Chamber of Commerce.

—Jenny Price is a former Associated Press statehouse reporter. She is now a freelance writer based in Madison, Wis.



Photo courtesy of the Retirement Systems of Alabama

In 2003, Alabama's retirement system became the majority shareholder of US Airways and RSA's David Bronner became the airline's chairman.