Straub Got Retirement Fund 'Out of the Mattress'

Editor's Note: The following article about Oregon's State Treasurer, Robert W. Straub, appeared in the Spring, 1972 issue of Pensions, a magazine published by Institutional Investor Systems, Inc., 140 Cedar Street, New York, New York 10006. It appeared under the headline, "Robert Straub: Oregon's trail-blazing treasurer." The article was written by John S. DeMott, and is reprinted here with the permission of Everett Mattlin, editor of Pensions.

When he first campaigned for the office of Oregon state treasurer in 1964, Robert W. Straub pledged to get the state employe pension fund "out of the mattress" and into creative investments. But not even Bob Straub would have then guessed that by 1972 his efforts would lead to investment in such diverse enterprises as a book distributing company and a chain of ice cream parlors based in Portland.

The checks of Oregon's once and future retired public employes are not, of course, riding heavily on how many hot fudge sundaes are dished out by Farrell's, the parlor chain. (The investment there was for $1 million in the form of a loan, with options to buy 30,000 shares at 20 per cent below the offering price when Farrell's goes public this fall.) But the commitment symbolizes how far Oregon has gone in blazing the state pension fund trail—which, until recently, was a wilderness of unimaginative management and supercaution in all but a handful of states.

With the forceful Straub as wagonmaster—or more formally as state treasurer and chief investment officer—Oregon has moved decisively to put the $650 million presently in its combined Public Employes' Retirement System and State Accident Insurance Fund to work. It has liberalized its investment laws, hired professional money managers from inside and outside Oregon to run a major portion of its pension fund money on a discretionary basis, pumped more than $100 million into common stocks, realized a time-weighted return of 12.7 per cent on stock investments, dabbled in private placements with interest yields up to 10.5 per cent and begun negotiations to buy real estate.

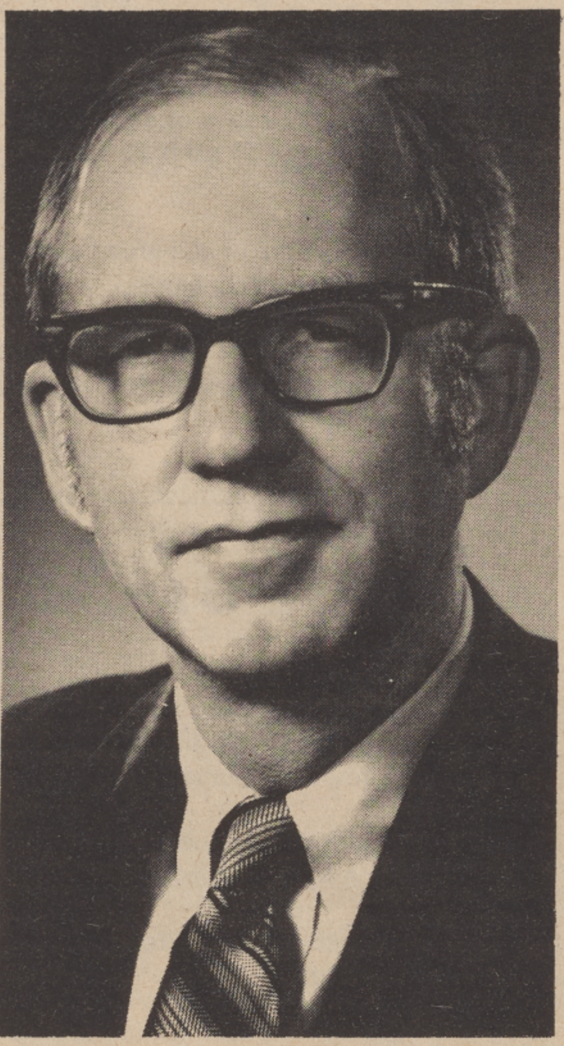
Many of Straub's changes echo what has been happening in the private pension system. This is not, of course, coincidental. "Our missions," he says, "are the same—to provide for our beneficiaries in the best ways we know." The big difference—that Straub is working in the public sector as a politician—has, he insists, presented no special problems. This was true, he says, even when, as state treasurer, he ran unsuccessfully for governor in 1966 and 1970. "What we were doing with the pension fund never became an issue in either campaign," Straub says. "We were $6 million under water in equities during my last campaign, and nobody mentioned it."

Indeed, Oregon's thrust toward performance seems to have run almost as smoothly as the Mercedes Benz diesel that the tall, athletic and brightly suited Straub (STRAWB as in strawberry) drives each day from his farm in Polk County to his Capitol Building office in Salem. While Straub acknowledges that his program (like everyone else's) was forced to do battle with the 1969-70 bear market, and while there have been parochial grumbles from politicians and old guarders who would prefer to see heavier investments in Oregon companies, none of these has stopped the state's new investment aggressiveness.

Nor does Straub foresee a slowing down or reversal of his program after he leaves office next January. (His second four-year term expires then, and by law he can't succeed himself again.) "The program is well-established," he says. "I don't think that either the governor or the legislature would permit severe tampering."

That a new direction was called for seemed self-evident when Straub took office in 1965. Of the $213 million then invested by the combined retirement and accident insurance funds, 40.1 per cent was in low-yielding government and agency paper, 41.1 per cent was in corporates rated no lower than A and mostly AA and AAA, and 18.8 per cent was in mortgages. At the same time, the state general fund had a daily average cash balance of some $14 million—15 per cent of available funds—which was blithely channeled into demand deposits bearing no interest.

Straub moved swiftly to correct these deficiencies. He set up an investment division in the treasury department and staffed it with a manager whose sole



ROBERT W. STRAUB

responsibility was investments. He shifted some long-term funds into higher-yield federally insured mortgages. To the continuing consternation of bankers, he began pulling almost all money out of demand deposits—some $60 million so far—and pouring it into interest-bearing investments.

But what Straub wanted most—the freedom to invest in common stocks—was some time in coming. He asked the legislature for such authority in 1965 and was rebuffed. "Resistence to that change still ran high," he says. But in its 1967 session, the legislature delivered. Straub got authority to invest up to 10 per cent of the retirement and insurance funds in common stocks, with the prudent-man rule as the chief restriction.

The same law created the Oregon Investment Council—a five-member panel with a statutory seat for the state treasurer (with two members appointed by the governor and two by the Public Employes' Retirement Board)—to do what no state had done up to then: hire professional money managers and give them full discretion over what stocks to buy and sell.

The legislation reflected Straub's personal outlook. The amiable politician—he was a county commissioner and state senator before running for the treasurer's office—has twenty years' experience in investing for himself as a building contractor (chiefly housing), land developer and rancher, and he says the experience has taught him the value of professional management. It seemed to Straub that public funds in particular demand such management. "Because of the limitations on salaries in public service—and because of the potential for political interference in investments—we felt we could get a better job from outside sources," he says. "Besides, elected officials have no business buying and selling stocks."

Before using their new authority, Straub and the Investment Council sought a friendly court test of the legislature's provision for investing the retirement fund in common stocks, for Oregon law prohibits the state from an ownership in private business. A circuit court ruled that investing the trusteed funds in stocks would indeed by unconstitutional—which really wrecked the whole program—but its decision was reversed on appeal to the Oregon Supreme Court. The major part of the argument was that the money to be invested was not state money at all, that it belonged instead to the retired public employes.

It was not until 1969, then, that Straub found himself ready to hire money managers, and a nationwide search was begun. Some 65 firms were interviewed, and three were picked—Fayez Sarofim of Houstin, and Capital Guardian Trust Co. and Transamerica Investment Management, both of Los Angeles.

In 1971, after the legislature increased to 25 per cent the portion of the funds that could be invested in stocks, four more managers were hired— BEA Associates and Jennison Associates of New York, Columbia Management of Portland and Rosenberg Captial Management of San Francisco. Transamerica was dropped after George Bjurman, who handled Transamerica's share of Oregon's account, left to start his own firm.

Choosing the managers was the formal job of the Investment Council. But Straub, in his triple role as treasurer, chief investment officer and chairman of the council (the members elected him to the position twice), played a decisive role in the selection. At no point in the process, says Straub, was it considered whether or not the managers were Oregon firms—a heresy that produced a few short-lived complaints. Rather, Straub's target was achieving a mixture of styles and capabilities. "We were not so much interested in what the managers' investment philosophies were so long as they **had** philosophies," he says. "Also we're interested in their being on top of things—if they're **watching it**, and are in control of their own organizational problems."

In BEA, for example, Straub saw a bond-oriented house that nonetheless was on the lookout for undervalued turnaround situations. Capital Guardian, in Straub's view, leans toward smaller local companies with lower multiples, while Jennison, Rosenberg and Columbia prefer high-multiple growth situations. Sarofim, with more than $1 billion under management, offered size and a solid record.

The six managers run unequal shares of the $100 million now in equities, with a potential of $160 million under the new 25 per cent limit. Straub hopes to ease the remaining $60 million into the market by the middle of 1973. Then the plan is to ask the legislature for a 50 per cent limit. If that happens, it would be the heaviest commitment to common stocks of any state pension fund, outstripping even Hawaii which has a 40 per cent limit now. Straub feels anything less would be unsatisfactory: "Fifty per cent in stocks and the rest in bonds and real estate would give us a proper balance."

Straub and his staff (two full-time investment officers) manage the nonequity investments of the fund —bonds, real estate and private placements. Straub emphasizes that his role in stock investments is strictly that of a monitor. "I want to know what the managers are doing but I keep hands off," he says. "They have freedom to invest as they see fit, and they don't have to run to Oregon every time they want to do something." Similarly, the Investment Council sets overall investment policy, but it places no limit on what stocks can be purchased—except for the usual prohibitions against letter stock, buying on margain, shorting, options, etc.—nor does it distribute an "approved" list of stock investments to the managers.

Custodial management of Oregon's account is handled by the First National Bank of Oregon. But judging the managers' performance is the job of the Investment Council and, ultimately, Straub. In general, the numbers tell a favorable story. Since stock purchases began in July 1969, the time-weighted average annual rate of return on the stock investments has run 12.5 per cent, despite a period in the program's early months when the equity portfolio was down $6 million from purchase price as the Dow skidded to its May 1970 low.

Now, however, as the program nears its third anniversary, Straub is finding that the numbers at any given moment aren't enough to make a flat-out judgement of how a manager is doing. "It's so hard to compare the performance of one pool of money under one manager with the performance of another pool of money under another manager. Variables you don't know about might apply," he says. "All the restraints that one guy is under might not apply to another. His cash flow may be different, or he may have had more dogs when he started."

"And another thing we've found," Straub continues, "is that you need a long time to evaluate performance.

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