Transcript: Major pension fund invests in farm land

Gillian Tett and Roger Ferguson

GT: Hello and welcome to View from the Top with *Financial Times* in New York. I'm Gillian Tett the U.S. managing editor and joinging me today is Roger Ferguson, the CEO of TIAA-CREF, the large investment group. Now, Roger, these are clearly very volatile times—very worrying times for many ordinary investors. How does a group like yours manage to preserve value and produce returns in these kind of markets?

RF: Well, we take a long-term perspective. So the way that we produce the value that you're talking about and make sure we get the right type of returns is by following our long-term investment strategy. That involves a couple of things. First we're fully invested at all times. We do not attempt to time the markets because we know full well that you will get out-- even professional investors may get out at an inopportune time and miss some of the rallies. Secondly, we really focus in on being fully diversified and that means diversification across a full range of assets—liquid and ill liquid—it means global diversification, and that's quite important. And the third is we really have an active conversation between our asset managers and risk managers so that we attempt to avoid some of the potholes that others may fall into.

GT: And are you expecting to see more volatility going forward? I mean how concerned are you, say, about the Eurozone?

RF: I fully expect to see more volatility going forward in global markets--not just in the U.S., not just Europe. I think it reflects a great deal of uncertainty that continues to exist in the world. The Eurozone, I think, is an area that bears continuing monitoring and watching. They're clearly continuing to work through how they're going to support Greece—to what degree they're going to do that. That has an interaction between fiscal policy, stability policy, and frankly, local politics at the national level, which makes all of this that much more complicated. So, I do think the Eurozone will continue to bear close scrutiny for some time to come.

GT: And where do you see the greatest opportunities in the global markets today? I mean, many of the funds have been dashing into emerging markets. Is that the kind of place where you're putting money now?

RF: We have been putting money into emerging markets for some time now. But I will remind you, diversification is really important to us. And we also, clearly, are looking for some special situations where they're starting to emerge.

GT: And in terms of the kind of returns that you think are reasonable to be chasing these days. I mean, many parts of the U.S. pension industry are committed to 8% returns, which appears to be pretty high given the current situation of the markets today. What kind of returns are you promising your pensioners?

RF: Well first thing, you used the word chasing returns. We are not interested in chasing returns. We have a core underlying promise that we will give our participants the best returns practical during the course of the cycle. And we have been very careful to make sure that those who are living in retirement are continuing to get at least as much income going forward as they have in the recent past. That's the approach that we're taking. But we're very very careful to recognize that we've got to stick to our fundamental principles and that's the way that kind of return that our participants deserve.

GT: Now farmland is one area where your group has become very active--quite prominent over the last year or two. Can you tell us why that is?

RF: We believe that's a really important long-term play. It's really focused in on the growing middle-class around the world and the changing eating habits, etc. So that's really why we're doing it. And it's one of the things that will really be a trademark, I believe for our company. This effort to find very good long-term values, taking advantage of themes of that type as opposed to attempting to try to time markets.

GT: But you must have made a lot return on that this last couple of years given what's happened to farmland prices.

RF: It has been a pretty good run. One should be very cautious, obviously. I'm not sure that farmland prices can continue this kind of rapid increase. But I do think that the fundamental supply and demand characteristics of such that will prove to be a very long-term, very smart investment in the long-term, and very good for those who are thinking about pensions and providing financial security for many, many years to come.

GT: And as I understand it most of your purchases have initially been in America and now you're looking overseas, is that correct?

RF: Well we have farmland in the U.S., in Eastern Europe, in Australia, and also in Brazil.

GT: And would you expect to get in the business of managing farms or actually being farmers?

RF: (laughs) I don't think we'll be in the business of being farmers, I think we'll be in the business of owning the land and then leasing it out to the local farmers and helping them to be as productive as they possibly can.

GT: Now, in terms of the bigger picture for pensions industry in the U.S., you've been quite a vocal critic of the current system in calling for more reform and more changes. To your mind, is there any sign that any of the changes you want to see are starting yet?

RF: We're starting to see some of those changes at very, very small levels for sure. I am seeing in our own client base a clear focus on financial literacy, for example. I think the message about thinking through the long-term. Not just simply asset accumulation, but also the payout phase is starting to get some traction. As more and more people get closer to retirement they're starting to think, well, not just enough to accumulate a nest egg but what does that mean about income for a lifetime. We've seen, for example, here in the U.S., the regulators, the department of labor, ask questions about annuities, which is one form of getting a lifetime payout. So I think we're starting to see that. We're also starting to see, in a number of places, the recognition that the provision of retirement is something that's important for both the employer and the employee to participate in.

GT: But are you worried that the U.S. is heading towards a looming pensions crunch? Given the fact that people are living longer and given that so many themes are so under-funded to such an extraordinary degree.

RF: I've said a few places that all three legs of the retirement system are under some stress. Social security that we've talked about, private savings, that has been much discussed, but also, yes many pension plans are under stress. And I think we're all just simply going to have to prepare for that and start to think through a gradual fix of the system that will hopefully make it safer for future generations.

GT: And would you support things like raising the retirement age and trying to renegotiate some of the benefits as part of that? Do you see that as inevitable?

RF: I think there are a number of fixes that are likely to emerge. The politicians will ultimately decide what they'll be. Economists, for example, actually look at a range of fixes to social security. One of those is clearly thinking about having for some people, higher taxes to pay for social security. And there are ongoing discussions going on for what age retirement should be. In talking about retirement age we have to recognize two things. Greater longevity, individuals potentially able to work longer, but there's also clearly a class of people in America for which a longer retirement, I'm sorry, a delayed retirement age, is not very attractive.

GT: And in terms of your efforts to promote financial literacy, I mean, what do you plan to be doing about that?

RF: Well we're doing a number of things. We have partnered in a number of school districts around the country with respect to financial literacy. We ourselves have encouraged through social networking different sorts of games, one, on raise the rate. We have now one on our website around financial IQ. We're encouraging people to test their own financial IQ. And we really are attempting to both, in person, when we go onto campus or in high schools, and also through our web, to encourage more discussion around financial literacy and to give people some of the tools, and frankly to try to make it fun, if possible.

GT: And in terms of the outlook for the investment industry, more broadly, I mean, after the collapse of the bubble in Japan, the entire generation was scarred by the experience. Are you concerned that U.S. investors and consumers have had their psyche changed in potentially damaging ways as a result of this credit boom and bust?

RF: I think there are two potential outcomes, one of which would be negative, one would be positive. The positive is I think people will recognize the need to save more, I think they'll recognize the need to get good, objective advice. Hopefully they'll start to think more fully about diversification and they'll recognize that simply trying to amass a large nest egg is not sufficient. The negative may well be that people will become overly conservative and not recognize that they're going to have to plan for long, long periods in retirement—20 or 30 years possibly. So, I think this could go either way and one of the reasons to talk about this as much as we do is to try to encourage the better outcomes and avoid the risk of people becoming inappropriately conservative and not thinking about the long-term.

GT: Thank you.

RF: Thank you.