



On The Cover/Top Stories

Pensions, Pols, Payola

Neil Weinberg 03.12.07

Like politicians in many states, North Carolina's treasurer takes campaign donations from money managers eager for his business. Yet he rails against conflicts of interest on Wall Street.

Richard Moore is an appealing politician--so appealing that, although he won reelection as North Carolina's state treasurer in 2004, last year he landed a \$4,000 contribution from a self-employed interior designer who lives on the Upper West Side of Manhattan. His benefactor, Julie Marshall, has no real need to fund Moore's likely run for the North Carolina governorship in 2008. "My husband went to a fundraiser [in New York] and afterward was all excited," she says. Her husband, Gerald Marshall, also gave Moore \$4,000; Marshall runs investment firm Amerimar Enterprises.

As state treasurer Moore, a Democrat, is the sole fiduciary for the North Carolina Retirement System, with \$73 billion in assets. He holds sway over which money managers are entrusted to invest funds from the state pension plan. At stake: millions of dollars in fees. He has parlayed this clout into one of the biggest fundraising machines in the state by eagerly accepting contributions from dozens of financial firms that benefit (or could benefit) from his largesse.

Moore, since winning reelection, has raised more than half a million dollars from financiers far outside the Tar Heel State, from Massachusetts to California. His campaign fund got \$381,000 this way, 11% of its total take; a fiscal-education foundation run from Moore's office got \$163,000. Of 90 firms that invest North Carolina funds, 40 have employees that funded his campaign. Employees of another 40 investment firms not working for the state also donated.

That looks like a blatant conflict of interest, yet it is entirely legal in North Carolina, as it is in most of the U.S. State and local governments are a cesspool of pay-to-play. The stakes are huge, with 2,700 state and local pension funds controlling \$2.8 trillion in assets. In the uncertain event that Congress passes real campaign-finance reform at the federal level, payola at the local level is likely to continue.

The case of Richard Moore is particularly galling, for this man has built his career crusading against conflicts of interest on Wall Street. He calls himself "North Carolina's elected guardian of the state treasury" and advises the New York Stock Exchange on good governance. He forces investment banks that work for the state to swear off conflicts. In 2002, amid a raft of corporate scandals, he grandstanded before a U.S. Senate commerce committee: "We are demanding that broker/dealers and money managers eliminate actual and potential conflict of interest from the way they pay analysts and conduct their affairs."

Moore applies no such prohibitions to himself, and he is unrepentant about it. "I didn't set up the rules, but I play by the rules," he says. "We do not have a culture of pay-to-play in the treasurer's office in the state of North Carolina."

He has been feted at out-of-state fundraisers, two of them in the New York home of Donaldson, Lufkin & Jenrette cofounder Richard Jenrette. His contributors include billionaire financiers Stephen Schwarzman, Nelson Peltz and Paul Tudor Jones (none of whom landed state funds). "I don't know what they think they're going to get," says Moore. "I like to think they respect somebody who runs a good business."

Maybe they hope to get good business for themselves. As Moore duns money managers for dollars, the fees the treasurer's office pays out to them have jumped sixfold under his reign, to \$116 million in the year through last June. North Carolina paid \$15 million in incentives to a Deutsche Bank/RREEF real estate fund last fiscal year in which its closing balance was only \$29 million. (It also paid \$590,000 to Elevation Partners, a minority investor in FORBES; Elevation's employees have not contributed to Moore's campaign.) All told, over half the state's fees, or \$63 million, went to firms that manage just 6.3% of its assets: hedge, private equity and real estate funds. These same firms were disproportionately large contributors to Moore's campaign.

Do these donors beat cheap index funds? The taxpayers of North Carolina might like to know. But Moore's office, in each of his six years as treasurer, has failed to provide the state legislature with a state-mandated annual report detailing his managers' results. Moore's state Web site posts sparse details, mostly from 2005 or earlier; it does not disclose the names of the money managers he hires or their fees.

When asked for the state-mandated reports, Moore said they were unavailable. He handed over data on payments to fund managers only after FORBES prepared to take him to court ([his constituents can get their first peek here](#)).

Did we say unrepentant? This is almost comical: To handle FORBES' inquiries, Moore's office retained the Durham, N.C. law firm of Womble Carlyle Sandridge & Rice, and it turns out lawyers from that firm kicked in \$34,560 to Moore's campaigns.

So what Moore decries as improper ties on Wall Street is more like synergy when it involves the Richard Moore reelection committee. "There's a huge difference between asking for contributions to my campaign and things that go in my own pocket," Moore insists.

Payola for politicians became so rampant in municipal bonds that in 1994 the Securities & Exchange Commission banned muni underwriters from contributing to the campaigns of public officials. The SEC's chairman at the time, Arthur Levitt Jr., sought to extend the ban in 1999 to firms handling public pensions. The financial industry derailed Levitt's bid. "Wrongdoing is still clearly going on in how business is rewarded," Levitt says.

In some states bribery is at work. Maryland's pension fund kept using an underperforming manager who had made illegal contributions to the governor. The manager was convicted of fraud in 2004 that cost Maryland \$4.7 million. New Mexico's past two treasurers got jail time for seeking bribes from outside fund managers.

Moore, 46, is a North Carolina native who attended Wake Forest University School of Law and married Noel Crook, an heiress to the \$2.2 billion H.E. Butt grocery fortune. He served as a federal prosecutor, won election to the state legislature in 1992 and made a failed bid for Congress two years later. In 1995 he was appointed secretary of crime control and public safety. Hurricane Floyd (in 1999) gave him precious exposure. His affinity for television cameras is said to rival that of Geraldo Rivera.

Shortly after he was elected treasurer in 2000, Moore won headlines demanding that Wall Street clean up its act. He also persuaded the state legislature to increase the portion of the pension fund in hedge and private equity funds--from 0.1% to 5%. In support of that effort was Eugene

McDonald, former manager of Duke University's endowment, who wrote a paper on it. It turns out McDonald was a member of Moore's five-person investment committee. After Moore won wider latitude he quickly handed \$400 million to Quellos Asset Management, a private equity firm in Seattle. Quellos' investment chief: Eugene McDonald. Moore stuck with Quellos after it was slammed in 2005 for flogging tax shelters that the U.S. Senate declared "a bowl of spaghetti." Cost to U.S. taxpayers: \$300 million.

Asked about this, Moore said McDonald joined Quellos only after the firm got state pension money--which is untrue. Informed of his misstatement, Moore was undaunted, saying that even "if I had known about it, I don't think it would have made any difference." Quellos says it has returned "superior results," but in fact it earned North Carolina a middling 7% annually (versus 11% for the S&P 500) the past three years. It reaped \$6.1 million from Moore's office last fiscal year. Quellos execs, including McDonald, have contributed \$16,000 to Moore's campaign.

Moore's investment chief, Andrew Siltan, went part-time in 2003 and picked up work with Franklin Street Partners. Moore has \$400 million invested with this Chapel Hill, N.C. hedge fund and paid it \$5.5 million in the last fiscal year. Moore took in \$15,000 from Franklin Street officials. Shorenstein Realty Investors handles \$75 million in state pension money and got a \$1.2 million fee in the last fiscal year. Owner Douglas Shorenstein held a fundraiser for Moore in San Francisco and with colleagues has given him \$18,000.

Billionaire Robert Johnson of BET and seven employees of his RLJ Development kicked \$23,000 into Moore's fund. Moore agreed in 2005 to send \$50 million to RLJ for investing. Fourteen execs at Bank of New York gave \$22,757 to Moore. His office uses the bank for securities custody.

Tracking Moore's results is difficult. The state auditor found in 2005 that 40% of his high-risk fund managers ran 6 to 18 months late supplying returns data. One data set, though, shows they are trailing behind industry benchmarks: In five years hedge and private equity funds returned 2.3% annually for the state against a benchmark of 7.7%, real estate funds 10.5% versus the benchmark 11.9%. Moore hit up 28 of these lavishly paid managers for \$211,700.

Connecticut, New Jersey and the largest California public employees pension fund have banned political contributions from money managers. In North Carolina the constitution states pension funds cannot be used for "any purpose other than retirement benefits." Except maybe running for governor.

Additional reporting by Jason Storbakken.

Moore's Law

Investing in exotic funds is costly. North Carolina pays them more than half its management fees to handle 6% of its assets. Overall, these funds' returns have been mediocre—but the campaign contributions they are attached to have not been.

MOORE'S MUTUAL BACK-SCRATCHERS Investment manager/Fund	WHAT THEY GAVE Political contributions from fund managers to North Carolina treasurer	WHAT THEY GOT Fees paid by North Carolina treasurer to fund	WHAT THEY EARNED 1-year total return
Aurora/Ventures IV LLC	\$4,500	\$684,000	-7%
Broyhill/Broyhill Fund	19,390	91,581	9
Castle Harlan/Partners IV	12,000	2,300,000	27
Franklin Street/Franklin Street Partners	15,000	5,500,000	12
Parish Capital/Parish Capital LP	8,000	1,310,000	-13
Quellos/CARS	16,000	6,140,000	10
RLJ Development/Urban Lodging Fund	23,000	625,000	2
Shorenstein Prop./Realty Investors VII LP	18,000	1,167,000	45

Political contributions for 2005 and 2006; returns through June 30, 2006.
Sources: North Carolina Department of State Treasurer; North Carolina State Board of Elections; Forbes.