Markets Magazine

The Florida Pension Fund Managers Who've Beaten the S&P 500 Over 50 Years

Bowen, Hanes & Co., which oversees the pensions of Tampa police and firefighters, outdid the index by an annualized 2 percentage points with the equity portion of its portfolio.

Jay Bowen at his home in South Carolina. *Photographer: Peter Frank Edwards for Bloomberg Markets*

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Takeaways Show

Unlike most other US public retirement plans of its size, the Tampa Fire & Police Pension Fund doesn't invest in hedge funds, private equity or private credit. It doesn't hire consultants to help it pick outside managers. Instead, for the past 50 years, its investments in stocks and bonds have been overseen by a single manager, Bowen, Hanes & Co., a nine-person firm led by Harold "Jay" Bowen III. In short, Tampa and Bowen Hanes do one thing, and the rest of the institutional world does something else.

Consider the Tampa fund's performance, though. It racked up a 32.2% return in the fiscal year ended in September. "Fiscal 2024 was—not only was it our 50th year, it was the best year the plan's ever had," says Bowen, 63. The return was good enough to rank the Tampa plan as the best performer for the period in the Wilshire Trust Universe Comparison Service's database of plans with more than $1 billion in assets under management. Tampa was also No. 1 for 3, 5, 10, 15, 20, 25, 30, 35 and 40 years.

When the firm started by Bowen's father began managing the Tampa Fire & Police pension in 1974, the plan had $12.1 million in assets. Fifty years later, in September 2024, the plan's assets totaled $3.2 billion. What's more, net of contributions, the system had paid out $1.8 billion to retirees. That means by investing in stocks and bonds, Bowen Hanes had in effect turned $12 million into almost $5 billion over 50 years.

To drill down to Bowen Hanes' stockpicking prowess, look at it from one more angle. Because of its investment policy, the Tampa plan can't be more than 65% stocks by cost. If you isolate the common stocks in the fund, their cumulative return was 86,022%. Annualized, that's 14.5%, versus 12.5% for the S&P 500. The fund's stocks beat the index by 2 percentage points for 50 years.

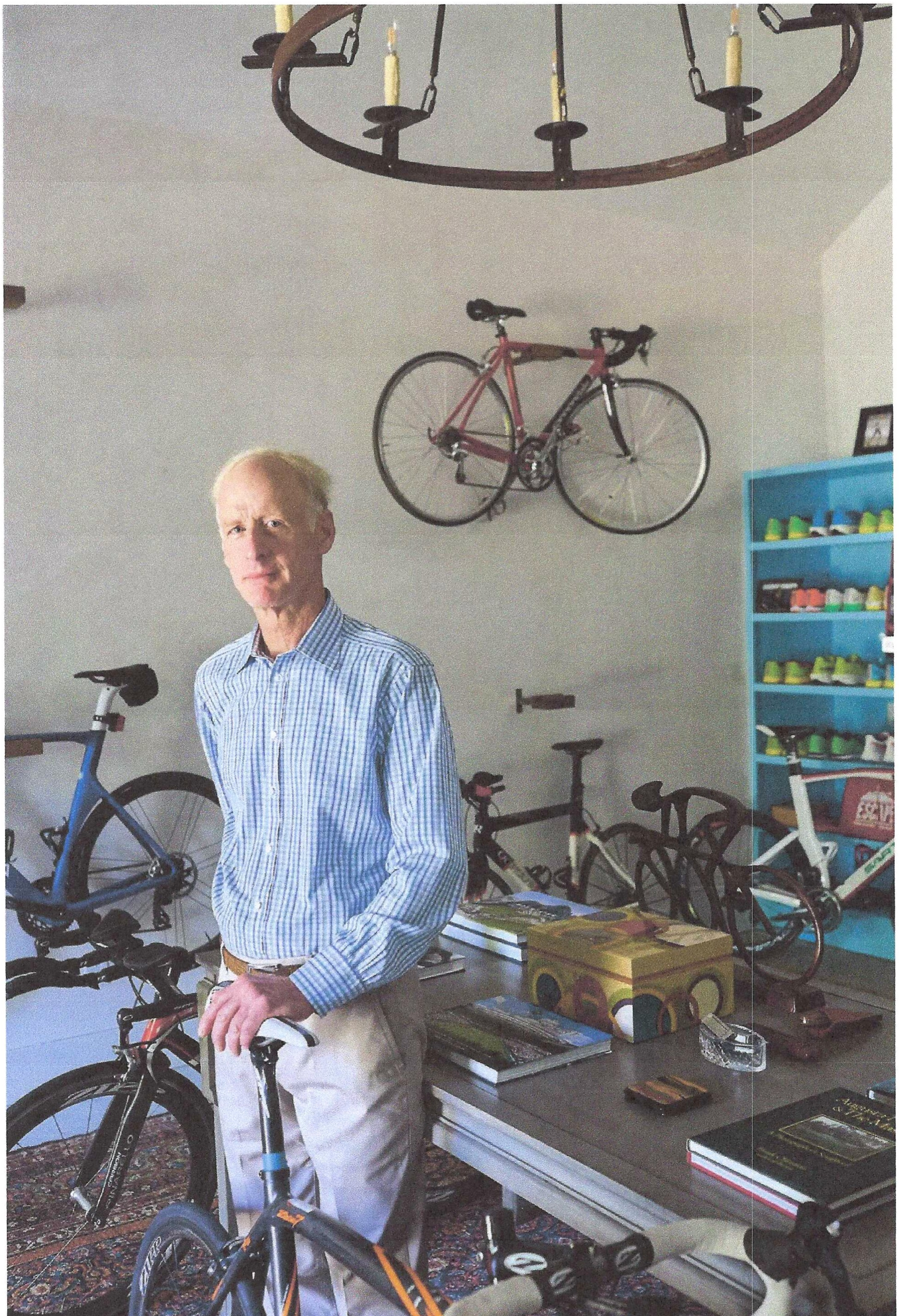
How did Bowen Hanes rack up that record? Start with Jay Bowen's father, Harold Bowen Jr., who went by Harold. Born in Charleston, South Carolina, in 1930, Harold served in the Marine Corps before earning a degree in economics from the University of North Carolina at Chapel Hill. He became a money manager in Chicago and then moved south to Atlanta to escape the harsh winters. In 1969, Tampa set up a new Fire & Police pension fund because of concerns about the actuarial soundness of a predecessor plan. Harold was the contact for the investment manager the new plan hired, a company in Atlanta.

Tracy Walker, a retired firefighter who served as a trustee for 10 years of a 31-year career with Tampa Fire & Rescue, says the original trustees established a strong relationship with Harold. After he struck out on his own and started the firm that became Bowen Hanes, the trustees approached him to take over management of the pension fund. "The board loved him so much," Walker says. Why? "Maybe outside of my dad, I've never met anybody that had as much integrity as Mr. Bowen did," he says. "He was such a solid guy, with solid views."

The deal with the Tampa plan was simple. Bowen Hanes would manage the entire pool, charging only a "competitive" flat fee. That's still the case: The firm charges Tampa an investment management fee of 0.25% of assets per year. By comparison, the average for public retirement systems was 0.39% in 2024, according to a study by the National Conference on Public Employee Retirement Systems.

Jay says his father initially took a value-based approach to picking stocks, in line with the ideas that Benjamin Graham and David Dodd spelled out in Security Analysis. "He would pore over Value Lines," he says, referring to the newsletter that Value Line Inc. published. "It was a matter of looking at sales per share and cash flow and free cash flow and free cash flow yield and forward multiples and all of these statistical Graham and Dodd metrics."

In an era when emphasizing common stocks was not the norm for institutional investors, Harold pushed the fund in that direction. "He always thought that was going to be the driver for long-term capital appreciation," his son says. By contrast, the fixed-income part of the portfolio—investment-grade bonds selected in a buy-and-hold strategy-was strictly for income and stability, he says.



Bowen. *Photographer: Peter Frank Edwards for Bloomberg Markets*

Still, the 1970s was a rough period for stockpicking. From 1967 to 1982, the US equity market had a negative real return. Because Harold attributed the market performance during that stretch to fiscal and monetary policy mistakes (letting inflation rise to as much as 15%, for instance) he came to focus on analyzing the broad policy arena as a top-down driver of markets.

A series of big changes in the late 1970s and early '80s confirmed Harold's view. "When it turned, it really turned," Jay says. Federal Reserve Chairman Paul Volcker broke the back of inflation. President Jimmy Carter tapped the advice of economist Alfred Kahn, who lifted rules on airfares and started a wave of deregulation of industries such as airlines and trucking. Then, President Ronald Reagan signed the Economic Recovery Tax Act in 1981, cutting personal and corporate tax rates.

Around that time, Harold began taking positions in consumer-staples stocks that had traded sideways for much of the 1970s. The thesis: Tamer inflation would stabilize costs, enabling companies such as Coca-Cola Co. to increase operating leverage and profitability. "He always joked that he got into Coke and Gillette before Warren Buffett," Jay says.

Jay Bowen joined his father at the firm in 1986, a couple of years after earning a degree in English from UNC Chapel Hill. Beginning in 1989 he took a couple of years off, writing a thesis at the London School of Economics and doing a research project at the Cato Institute, a libertarian think tank, in Washington, DC. He then returned to the firm and, when his father stepped back, assumed day-to-day control in 2000. (Harold Bowen died in 2018.)

Through it all, the Tampa fund continued to hold some shares of Coke, which had been bought at an average cost of $1.50. Coke traded at around $65 per share in 2010, when Jay decided he might be able to find better relative value in a different stock. "At the same time I was looking at this Coke holding, I was also looking at Apple and Steve Jobs and what was going on there," Bowen says. "I just felt like here you have, really, two consumer-products companies, and one of them, I think, might be on the wax and one of them on the wane." In 2011, Apple Inc. introduced the iPhone 4S, and Bowen Hanes built a position in the stock.

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Two years after Covid-19 hit, the firm moved from Atlanta to Ponte Vedra Beach, Florida, an affluent suburb of Jacksonville that's home to the PGA Tour and the TPC Sawgrass golf course. Recently, seated at a dark mahogany table in a conference room, Bowen and Executive Vice President David Kelly III explained the daily process of the long-term-oriented investment shop.

Each day, after the market close, a portfolio administrator prepares an appraisal of the Tampa fund's holdings for Bowen. The six-page printout shows about 50 common stocks grouped by industry, with the number of shares, unit cost, total cost, market price, market value and percentage gain or loss. "I feel like it's my job to justify these holdings every day, to scrutinize them and make sure we don't want to make any changes," Bowen says. "It becomes a matter of relative valuations and relative emphasis on where we want to be."

The printout for May 1 showed a unit cost of $13.26 for the Apple shares. At a closing price of $212.50 on April 30, the position had gained 1,502.6%.

Here, then, is one of the keys to the firm's performance: a focus on the long term. With enough horizon, an investor can ride out dips. In fact, this is one of the reasons that Bowen, like Buffett, is not a fan of modern portfolio theory, considering its equation of volatility with risk to be problematic.

Kelly rises from his chair at the conference table. "Let me touch on one thing on modern portfolio theory," he says. "Volatility equals risk." He points to a horizontal rail in the glass door of a case holding antiquarian books. "So, making up a chart, here's a stock that's a flat line for, say, 10 years." Then he traces a course up and to the right across the pane of glass, zigzagging up and down along the way. "And another stock goes up and down, up and down, but it grinds higher," he says. "The one that went up and down and tripled is much more risky than this one, right?" Maybe the company has been making acquisitions or developing new products. Yet the stock that's flatlined is preferred in theory as being less risky, he says.

Another key to Bowen's approach is high quality: identifying companies with good businesses that are generating strong financial results and have managers with vision and integrity. Retired firefighter Walker says the Tampa fund has never held a position in a stock that went bankrupt. He points to the collapse of Enron Corp. amid its accounting scandals in 2001. After other pension systems lost money when the Houston-based energy firm filed for bankruptcy, Walker recalls asking Harold Bowen why Tampa had never bought stock in the company. "Just as a point of interest, you know. And he's like, 'I never could figure out what they did.' "

A third tenet of the approach involves identifying top-down themes that could drive the performance of industries or companies. One such current theme, Bowen says, is the fourth industrial revolution, a trend that encompasses the development and implementation of artificial intelligence. "We really like these companies that are selling into robust industrial markets involved in the fourth industrial revolution–industrial automation and a lot of the data center activity from the hyperscalers and that kind of thing," he says, pointing to Corning, Parker-Hannifin and Teledyne Technologies. "We've always felt like they're disguised as industrial companies," Bowen says. "They're really technology companies."

The theme also led Bowen to build a position in Nvidia Corp. in 2019. "They were clearly the leader," he says. With a cost basis of $4.46, the position was up 2,341% as of April 30. "We've taken more profits than the current market value of the position," Bowen says.

These days, Bowen splits his time between the Florida office and working at his home in South Carolina. "I just like isolation," he says. "I learned a long time ago. That's how I do best, that kind of environment." He says he also discovered years ago that intense exercise enhances his ability to concentrate and focus. "With all the cycling and running I was doing, I decided that I might as well race," he says. He's since participated in numerous triathlons, including 15 Escape From Alcatraz races, which involve swimming 1.5 miles (2.4 kilometers) from the island in San Francisco Bay, biking 18 miles up and down the city's hills and running 8 miles of trails.

When it comes to topping rankings, Bowen expresses unease. "There have been plenty of times over the last 50 years when we have not looked good short term," he says. "With our long-term, high-quality, top-down thematic approach, we're going to be early to some of these themes, and we're not going to look good for a quarter or a year or two or three."

Indeed, the fund has had some really rough patches, Bowen adds. "You could just imagine how things were looking during some of those periods, whether it's the '87 crash or the tech bubble or the corporate scandals or the great financial crisis or Covid," he says. "There's just been some brutal periods over the short term, but we've always exploited those and come out the other side looking bigger and better."

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