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Pensions&Investments

THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT

Stanley Rowin

'MARKETS HELPED, BUT...': Steven F. Charlton cited organic growth as the main reason for NEPC's strong showing as asset owners decided to get away from in-house management.

SPECIAL REPORT INVESTMENT OUTSOURCING

OCIO rides market rebound to big growth

Managers also see clients shift from internal management post-pandemic

By CHRISTINE WILLIAMSON

The year ended March 31 was a strong one for OCIO managers, many of which had double-digit growth in assets under management thanks to a wave of new clients and strong performance.

The combination of buoyant market returns in the last three quarters of 2020 through the first quarter of 2021 and higher investment in OCIO strategies brought the industry to a new record total of $2.46 trillion in assets managed worldwide with full or partial discretion for institutional investors as of March 31, data from *Pensions & Investments'* latest industry survey showed.

Market returns were a significant driver of OCIO manager growth in the year ended March 31. The S&P 500 Total Return index was up 56.4% in the year ended March 31; AlphaNasdaq OCIO Broad Market index, up 30.7%; and Bloomberg Barclays U.S. Aggregate Bond index, up 0.7%.

SEE OUTSOURCING ON PAGE 17

MORE ON INVESTMENT OUTSOURCING

- Mass customization eyed to grow retail. **Page 14**
- Larger asset owners consider OCIO. **Page 15**
- Questions to ask in OCIO searches. **Page 10**

Regulation

All eyes on DOL plan to revisit fiduciary rule

Proposal could broaden definition under ERISA and who falls under it

By BRIAN CROCE

The political landscape in Washington has changed in the year since the SEC's best-interest standard took effect, which could mean different interpretations and enforcement practices from regulators. But the attention among investment-advice stakeholders this month is focused on the Department of Labor, as it announced plans to issue a proposed rule that could broaden who's considered a fiduciary under ERISA.

The rule-making, unveiled as part of the Labor Department's semiannual regulatory agenda June 11, would amend the regulatory definition of the term fiduciary "to more appropriately define when persons who render investment advice for a fee to employee benefit plans and (individual retirement accounts) are fiduciaries" within the meaning of the Employee Retirement Income Security Act and the Internal Revenue Code, according to a Labor Department explanation.

Moreover, the amendment would "take into account practices of investment advisers, and the expectations of plan officials and participants, and IRA owners who receive investment advice, as well as developments in the investment market-

SEE FIDUCIARY ON PAGE 24

WORRIES: Fred Reish thinks a concern is for people who move to a retail IRA, where there isn't a fiduciary standard.

Endowments

Japan's University Endowment Fund to spur other institutions

Government is hoping to foster U.S.-style funds at country's universities

By DOUGLAS APPELL

The giant ¥10 trillion ($91.1 billion) University Endowment Fund that Japan plans to launch in March to reverse a downtrend in the country's output of cutting-edge academic research will also promote the emergence of U.S.-style endowment funds as a key component of Japanese university finances, government officials say.

The ambition is more than just managing the ¥10 trillion the government has pledged for the fund, said Sho Ito, the Tokyo-based bureaucrat in charge of the program as deputy director of the Cabinet Office's Bureau of Science, Technology and Innovation, in a recent interview. "We want to change Japanese universities and we want to change (Japan's) investment culture as well," he said.

The fund — to be managed by Japan Science and Technology, a funding agency along the lines of the U.S.'s National Science Foundation — will look to garner real annual returns of at least 3% or $3 billion a year, to be distributed to a

SEE ENDOWMENT ON PAGE 26

Alex Griffiths

MASKING: John Roe said stimulus associated with the pandemic makes it hard to find underlying trends.

Investing

Effects of Brexit difficult to quantify as COVID-19 muddying the waters

By SOPHIE BAKER

Five years on from the U.K.'s referendum vote to leave the European Union, money managers are still searching for data to quantify its hits to the U.K. economy.

That's not because there is no data — markets have continued to operate, trade is still happening and statistics are still published by official entities — but rather because such data has been distorted by a much bigger concern: COVID-19. While the U.K.'s decision to leave the EU was revealed on June 24, 2016, it wasn't until January 31, 2020, that the U.K. officially left the bloc and began a set of negotiations with the EU over future relationships in financial services and other sectors.

And then COVID-19 hit

SEE BREXIT ON PAGE 26

SOUND BITE

CHRISTIAN BROTHERS INVESTMENT SERVICES' **JOHN W. GEISSINGER:** 'I think this proxy season really reminded everyone that **the shareholders are the owners.**' **Page 3**

Track record cited as major hurdle

Sara Tirschwell said women and minorities have trouble advancing because they can't use their investment track records. **Page 3**

IN THIS ISSUE

VOLUME 49, NUMBER 13

Michael Reynolds/CNP

6

Courts
Some ERISA attorneys are using a Supreme Court ruling written by Justice Brett Kavanaugh in the Thole defined benefit case to seek dismissal of defined contribution lawsuits — with little success so far. **Page 6**

Exchange-traded funds
A number of exchange-traded funds are punching above their weight in flows this year, data show. **Page 13**

Financial wellness
Plan sponsors are keeping all options open in a quest to help participants build emergency savings. **Page 4**

Money management
J.P. Morgan Asset Management agreed to acquire timberland and natural resource manager Campbell Global from BrightSphere Investment Group. **Page 21**

Pension funds
David T. Veal was selected to be the next chief investment officer of the Texas Employees Retirement System. **Page 23**

Regulation
Performance fees incurred by U.K. defined contribution plans investing in illiquid assets may be smoothed over five years starting Oct. 1. **Page 23**

Departments

At deadline....................24
Changes ahead.............27
Classified......................20
Corrections.....................4
Editorial........................10
ESG roundup.................12
ETFs.............................13
Frontlines........................8
Hirings...........................18
Other views....................10
RFPs.............................20

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Pension Funds

CalPERS mulls tracking-error method change

New calculation would remove alternatives, citing problems with investible benchmarks

By ARLEEN JACOBIUS

CalPERS' board is expected to decide in September whether to remove alternative investments from its tracking-error calculation used to control risk.

Deciding to do so would make sense, consultants say. When it comes to alternative investments, tracking error doesn't work because these asset classes lack an investible benchmark.

By comparison, it's "fairly easy to find benchmarks" for public equities, said John Delaney, Philadelphia-based portfolio manager for Willis Towers Watson PLC.

Using tracking error for alternative investments means that investors are constraining "real life strategies" to a certain level of correlation or volatility relative to a proxy benchmark, he said.

Many asset owners use a benchmark reflecting the opportunity cost, or the return over a public markets index for alternative investments. For example, CalPERS' private equity benchmark is Custom FTSE All World All Cap Equity, plus 150 basis points.

For private assets, tracking error limits can limit investment in assets that "don't look like the benchmark," reducing the value of investing in alternative investments, Mr. Delaney said.

The issue came up at the June 14 investment committee of the $469.8 billion California | SEE TRACKING ON PAGE 23

Nicole Delaney

NOT SO EASY: John Delaney said that while it isn't very difficult to find public equity benchmarks, determining benchmarks for alternatives comes with a host of issues.

ESG

European interest in social bonds growing

Marc Schlossman

UNCERTAINTY: Luba Nikulina thinks standards are needed in the social bonds market to avoid 'unintended consequences in certain geographies.'

But investors find supply isn't keeping pace with capital they want to deploy

By PAULINA PIELICHATA

Asset owners in Europe are keen to deploy more capital into social bonds but say they are challenged by limited opportunities.

European investors' exposure to impact investments, particularly social bonds, has been growing in the last year — in part due to new rules under the European Union's Sustainable Finance Disclosure Regulation, which became effective in March. Under the rules, regulators are steering pension funds' investments into assets with a specific environmental, social and governance impact in addition to requiring them to incorporate ESG factors into all other allocations.

Social bonds issuance was $249.6 billion in 2020, up from $22 billion in 2019, according to figures provided by the Climate Bonds Initiative, an international organization that works to mobilize capital in the bond market to help mitigate the effects of climate change.

The new SFDR rules around impact investing, known as Article 9, have been useful to focus investors' attention on their contribution to the United Nations' sustainable development goals such as access to health care or workers' rights. These concerns were also elevated to the top of investors' agendas because of the coronavirus pandemic. SEE SOCIAL BONDS ON PAGE 21

Regulation

DOL wants details on plan cybersecurity practices

By BRIAN CROCE

Retirement plan fiduciaries can expect to field questions and document requests about their cybersecurity practices and policies as part of the Department of Labor's Employee Benefits Security Administration's routine plan audits.

While EBSA investigators had opened inquiries into plan fiduciaries' cybersecurity practices in the past, since the department issued its first cybersecurity guidance in April, cybersecurity questions are now standard, said Ali Khawar, acting assistant secretary for EBSA, in a phone interview.

Mr. Khawar declined to get into specifics about the types of documents investigators are now seeking from plan fiduciaries because each case is "context specific."

But if plan fiduciaries read through the EBSA cybersecurity guidance and make an effort to comply, "I don't think they would be surprised by the kinds of questions they would get from our investigators," Mr. Khawar said.

The Labor Department on April 14 unveiled a three-piece guidance package detailing best practices for maintaining cybersecurity for plan sponsors, plan fiduciaries, record keepers and plan participants.

The first piece of guidance included tips for plan sponsors and fiduciaries on how to select a service provider with strong cybersecurity practices and how to monitor the service provider's activities. The tips include asking whether the service provider has experienced past security breaches, what happened and how the service provider responded, and making sure any contract with a service provider requires ongoing compliance with cybersecurity and information security standards.

The second piece of guidance was a list of 12 cybersecurity program best practices for plan sponsors and record keepers, such as having a reliable annual third-party audit of security controls and ensuring that any assets or data stored in a cloud or managed by a third-party service provider are subject to appropriate security reviews and independent security assessments.

The final piece was a set of online security tips for participants and beneficiaries when accessing a retirement account.

Broadly, "cybersecurity is about technology and it can be a very technical area, but if you take a step back and you think about the guidance that we issued, really that guidance is reaffirming very long-standing SEE EBSA ON PAGE 22

Money Management

Ex-TCW exec: Track record is another hurdle

Women, minorities have trouble advancing because of policies among investment firms

By ARLEEN JACOBIUS

Embroiled in a high-profile lawsuit against TCW Group Inc. over allegations of gender discrimination and sexual harassment, former distressed debt manager Sara Tirschwell says long-standing practices among investment firms limit executives who aspire to strike out on their own.

Those constraints, she said, effectively bar investment executives from taking their track records with them — to find jobs or to start their own firms — and demonstrating their accomplishments to potential investors.

Legal experts say that's because the track record belongs to the firm; it is up to the manager to decide whether or under what circumstances departing executives can use their portion of the track record.

To be sure, such constraints affect all investment executives, not just women. But for women and minorities, it can be something of a Catch-22 — they often lack the seniority to negotiate the use of such records, and track records are required by most institutional investors to award mandates. Without a portable track record, Ms. Tirschwell joined TCW in 2016 after an earlier effort to strike out on her own fizzled.

"The issue of the track record is a really important issue," Ms. Tirschwell said in a recent SEE TIRSCHWELL ON PAGE 24

Kholood Eid/The New York Times

ESSENTIAL: Sara Tirschwell called a portable track record 'a really important issue' in the industry.

ESG

Managers cautious as Japanese firms revamp governance

TAKE YOUR TIME: Kei Okamura worries boards will have inexperienced people.

As firms rush to comply with new standards, execs warn of tokenism

By SOPHIE BAKER

While Japanese companies are making huge progress in terms of corporate governance — particularly in relation to board independence and diversity — money management executives say that caution is necessary.

Recent revisions to the country's corporate governance and stewardship codes are pushing Japanese companies and operating standards further in line with best practices around the world. Appointing women to company boards and adding independent directors are among such enhancements.

But executives focusing on Japan warn there is a danger of tokenism and "overboarding" — with directors sitting on too many company boards — as firms rush to comply with the standards put in place by Japan's Financial Services Agency and the Tokyo Stock Exchange under the revised codes.

The problem is exacerbated by more stringent requirements for corporations looking to make it into the Tokyo Stock Exchange's prime listings section, requiring at least one-third independence on the board and in some cases a majority of independent directors.

The proportion of independent directors on Japanese corporate boards is already on the rise — sources said they accounted for 36% of boards in 2020, up from 27% in 2019.

SEE JAPAN ON PAGE 22

ESG

Climate tops proxy season in proposals, success rate

Shareholders set tone for taking the issue seriously

By HAZEL BRADFORD

The proxy season now wrapping up sent a strong signal that investors expect companies to take climate change seriously.

Climate rose to the top of shareholders' agendas this season, in terms of both the number of shareholder resolutions and the rate of success.

This year, 10 climate-related shareholder proposals received majority support, compared with only three in 2020 and zero in 2019. There was an equally dramatic level of shareholder support for such proposals, averaging 52.6%, up from 38.5% the previous year, according to Institutional Shareholder Services' governance and research unit, which counted 24 such proposals this year, compared to 10 in 2020 and 12 in 2019.

Proposals seeking stronger disclosure of how a company's climate lobbying aligns with the Paris Agreement goals won majority support at Exxon Mobil Corp., Phillips 66 Co., Norfolk Southern Corp., United Airlines Inc. and Delta Air Lines Inc. Similar resolutions filed at CSX Corp., Duke Energy Corp., FirstEnergy Corp., Entergy Corp., General Motors Co. and Valero Energy Corp. were withdrawn when the companies agreed to disclose their climate lobbying activity.

A majority of Exxon Mobil shareholders also approved a proposal seeking disclosure of the climate change risks the company faces.

At Chevron Inc., 61% of shareholders backed a proposal calling for Scope 3 emissions reductions targets, while 48% voted to recommend that the company report on its climate-related financial risks.

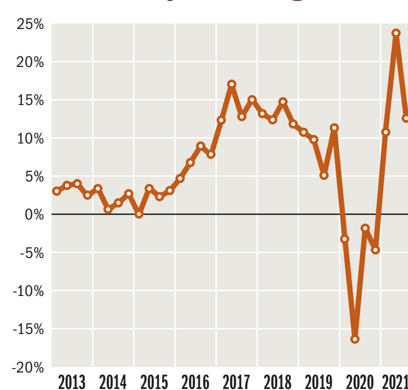
While oil and gas companies were most often put in the spotlight to address cli- SEE CLIMATE ON PAGE 27

Small caps on a roll

The economy's strong performance, with first-quarter GDP up by 6.1%, has helped stocks of all sizes, and smaller caps in particular. But while returns have outpaced their larger brethren in Q1, defined contribution plan participants have shied away from stand-alone U.S. small- and midcap equity options in favor of target-date funds, according to Callan. Small- and midcap stocks made up only 8.5% of DC assets, compared with about 27% for large caps and 32% for target-date funds.

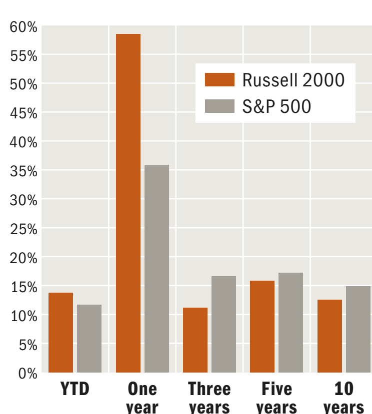
Sales grow: Small-cap companies' sales growth and earnings trajectory have markedly improved of late. The Russell 2000's year-over-year quarterly sales performance was negative last year but rebounded to 11% growth in Q1, and analysts estimate 24% and 13% increases in Q2 and Q3, respectively.

Year-over-year sales growth



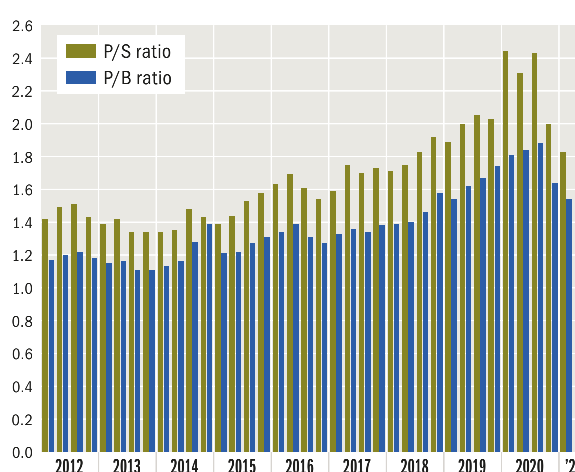
Recent outperformance: The Russell 2000 returned 58.5% over the past year, handily outpacing the S&P 500's 35.8% gain. But over the three-, five- and 10-year periods, small caps have underperformed large caps.

Index returns*



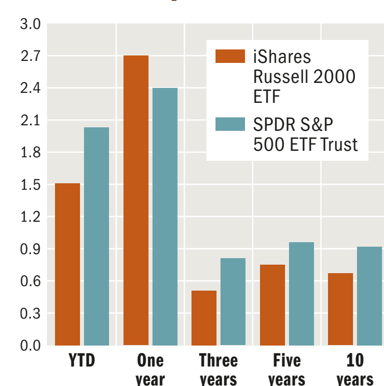
Valuations normalizing: The ratios of the S&P 500's price-to-book and price-to-sales measures to the Russell 2000 are currently 1.8 and 1.6, respectively, as of June 18. That is down from a P/B ratio of more than 2 for much of past year and a P/S ratio of more than 1.8.

Valuation ratios of S&P 500 to Russell 2000



Risk-adjusted returns lag: The Sharpe ratio of the one-year iShares Russell 2000 ETF is higher than the SPDR S&P 500 ETF, but lower for other periods. The combination of lower returns and higher volatility has negatively affected the Russell 2000.

Sharpe ratios*



*Through periods ended June 18. Source: Bloomberg LP

Compiled and designed by Larry Rothman and Gregg A. Runburg

Financial Wellness

Sponsors take closer look at emergency savings options

Legislation would allow participants to withdraw from retirement accounts

By MARGARIDA CORREIA

For plan sponsors, nothing is off the table when it comes to solving a problem that the pandemic pushed to the fore: the lack of emergency savings among low- and middle-income Americans.

Plan sponsors are not only backing proposed legislation that would allow participants to withdraw up to $1,000 in emergency funds from their retirement accounts. They're also evaluating what types of emergency savings vehicles to offer their employees, considering both "in-plan" and "out-of-plan" savings options. Many are even considering reinstating long-discarded plan provisions that would make in-plan savings possible.

"The pandemic really drove home the need for having emergency savings, whether it be in a bank, within the retirement plan or within other qualified savings options," said Alexandra Moen, a regional retirement plan consultant with Francis Investment Counsel LLC in Minneapolis.

Many plan sponsors see an easy fix in proposed emergency savings legislation introduced by Sen. James Lankford, R-Okla., and Sen. Michael Bennet, D-Colo., on May 27. The bill — called the Enhancing Emergency and Retirement Savings Act of 2021 — would allow participants to withdraw up to $1,000 from their retirement savings accounts for emergencies such as unexpected roof repairs, without having to pay the 10% early withdrawal penalty if under the age of 59½.

REPAY: Kent Mason said any previous withdrawal would have to be paid back before taking another.

They would be allowed to draw only from vested amounts over $1,000. "The idea is that individuals should have a base of retirement savings — that is, $1,000 — before they should be able to make emergency withdrawals," said Kent Mason, a partner at Davis & Harman LLP in Washington.

Participants would be permitted to take one emergency distribution annually provided they replenish any prior emergency funds they withdrew, Mr. Mason said.

Plan sponsor trade groups widely support the measure, saying greater access to retirement savings for emergencies would persuade more people to participate in retirement plans.

"Allowing participants access to savings for emergencies will encourage participation in retirement programs — particularly for those who may be hesitant to 'lock away' money in case they will need it later," Aliya Robinson, senior vice president of retirement and compensation policy at The ERISA Industry Committee in Washington, wrote in a letter to Messrs. Lankford and Bennet.

Lynn Dudley, senior vice president of global retirement and compensation policy at the American Benefits Council in Washington, shared similar views. "Even relatively small, unexpected expenses, such as a car repair or a modest medical bill, can be a hardship for many workers and fear of those expenses can keep them from saving," she wrote in a letter to the senators.

Alicia Munnell, director of the Center for Retirement Research at Boston College, doesn't see much harm in the bill, saying $1,000 is "so little money that it makes it not troublesome." In fact, the emergency withdrawals proposed in the bill "might be an easier, more direct way of getting at the problem" than emergency sidecar accounts, which are very cumbersome to set up, she said.

Not everyone, though, likes the bill. Robyn Credico, Willis Towers Watson PLC's Las Vegas-based defined contribution consulting leader, fears that participants would not return the money they withdrew from their retirement accounts for emergencies.

"It's not likely that people will put the money back or make it up," she said of the proposed emergency withdrawal measure, which allows participants to recontribute what they withdrew within three years.

Instead, Ms. Credico favors the use of emergency savings accounts. "I'd rather see employers help people save in a rainy day fund than

SEE EMERGENCY ON PAGE 21

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CORRECTIONS & CLARIFICATIONS

■ **Wilshire Advisors'** retail advisory business is one of the firm's fastest-growing businesses. Inaccurate information was in the page 3 story "Consultants target foothold in fast-growing retail market" in the June 14 issue. Also, StepStone Group manages $500 million in 1940 Act tender offer funds for accredited U.S. retail investors. The type of funds StepStone offers were incorrect in the same story.

Investment
INSIGHTS

IN THE POST-COVID RECOVERY, WATCH OUT FOR POTENTIAL RISKS

BIAGIO MANIERI, PH.D., CFA
Managing Director
Chief Multi-Asset Class Strategist
PFM Asset Management

With the resurgence of global economic activity as the COVID-19 lockdowns ease, institutional investors are looking at accelerating corporate profit growth and accommodative monetary policies as strong tailwinds for overall investment performance. Yet these developments also bring inflationary pressures at a time of high fiscal spending. In addition, debt levels are high and rising, and we may be at the beginning of a new era in foreign policy. Pensions & Investments spoke with Biagio Manieri, Ph.D., CFA, managing director and chief multi-asset class strategist at PFM Asset Management, to sort through the current macroeconomic and market risks that asset owners need to understand in order to better position their investment portfolios and avoid a potentially bumpy ride.

Pensions & Investments: As the world slowly gets back to normal, can investors start to relax with the expectation of smooth sailing from here?

BIAGIO MANIERI: We wish that were the case. Investors face a number of risks. Many are risks that they have not had to think about for a long time, such as inflation. The last time investors needed to seriously fret about inflation was in the mid-1960s and 1970s. Since the early 1990s, investors have not had to materially worry about inflation, nor ponder its impact on portfolio performance.

Taking this a step further, many investors who included inflation-related hedging investments in their portfolios over the past decade did not see much of a financial benefit and, in some cases, paid a price in lower investment performance. Today, however, a number of factors may push inflation higher, including the Federal Reserve's new inflation-targeting framework, significant fiscal and deficit spending combined with easy monetary policy, and other factors.

P&I: What about the Federal Reserve's position that any higher inflation will be transitory?

MANIERI: Federal Reserve Chairman [Jerome] Powell and others have argued that higher inflation is transitory and that [the Fed has] the tools to deal with it. In effect, the Fed is saying "trust us." If one considers short-term versus long-term inflation expectations, investors are indeed placing a lot of faith in the Fed. That said, investors would be well served to keep a careful eye on early indicators of inflation and be ready to act should it prove to be more than transitory.

P&I: In addition to possible higher inflation, what are other areas of concern for investors?

MANIERI: One topic that has received a great deal of attention is the diminishing prospect for higher future investment returns. Because low interest rates are hampering fixed-income returns and have led to elevated equity valuations, many investors are concluding that future returns are likely to be lower.

In addition, there are demographic trends — aging population, slower population growth. We think that most investors understand that. But investors may not be fully accounting for the impact of rising debt and continuing low productivity.

A number of studies have linked debt levels and future economic growth. One study by the International Monetary Fund found that higher debt levels lead to lower future economic growth. It also showed a nonlinear relationship between debt and future economic growth, meaning that as debt increases, it has a proportionally greater impact on reducing future growth.

> *We believe that investors need to be cautious, despite the recent run-up in global markets, and continuously evaluate long-term impacts of current policies.*

It is also important to note that the Congressional Budget Office [in the U.S.] estimates that debt held by the public will reach approximately 200% of gross domestic product by 2050. As a reference, it stood at about 100% of GDP during the World War II era.

P&I: Why should investors care about high debt levels and its impact on productivity?

MANIERI: Modern Monetary Theory makes the case that debt levels and deficit spending do not matter. However, this is not what the data show. High debt levels are also tied to another risk factor: slowing productivity. In our view, slowing productivity is more important than demographics, because productivity is what drives our improving standard of living.

Over the past decade, productivity has slowed to about half of its longer-term average, and the CBO estimates that productivity will continue to slow. There is a relationship between rising debt levels and slowing productivity. Rising debt levels and lower national savings are taking place within a backdrop of slowing domestic investments and rising entitlement spending. We are saving less and not investing for the future and we are borrowing to fund higher current consumption.

Why should investors care? Productivity is one of the major factors driving real economic growth over the longer term, which drives corporate profit growth and which, in turn, drives stock price appreciation. In short, we believe that lower productivity could result in lower equity returns over time.

P&I: How should investors interpret the Biden Administration's far-reaching spending programs?

MANIERI: In some respects, there are similarities between the current administration and the previous one. From different ends of the political spectrum, both adopted a 'populist' approach to the relationship between state and civil society. That's to be expected as the political pendulum swings back and forth. Just as the excesses of the 1960s and 1970s led to the election of Ronald Reagan, followed by Bill Clinton proclaiming that the "era of big government is over," the perception of income and wealth inequality today has led President Joe Biden to proclaim the end of the end of big government.

It remains to be seen what impact these far-reaching programs will have.

Some of the proposals would significantly strengthen the power and influence of the state over the economy and civil society. As the U.S. moves forward on this path, investors would be wise to keep the historical case of Germany in mind. From the late 1990s to 2005, Germany was referred to as the "sick man of Europe" [because of unemployment and poor economic growth]. However, in the years that followed, it improved its economic performance by liberalizing some of the rigidities of its economy and labor markets.

P&I: Can investors hope for improved U.S.-China relations under the Biden Administration?

MANIERI: There are some areas where the two nations have common interests, and we expect cooperation in those areas, such as climate change and terrorism. But it has been our position for some time that U.S.-China relations are likely be strained regardless of who occupies the White House.

When China was admitted into the World Trade Organization, the expectation was that China would begin to relax some of its internal controls while simultaneously working to improve its international relations. However, as we have seen in the South China Sea and other regions, China is actually adopting a more muscular foreign policy while tightening internal controls. Based upon these developments, we expect increased competition in U.S.-China relations.

P&I: Do you expect substantive changes to U.S. foreign policy with our allies?

MANIERI: With respect to allies, no doubt President Biden's style is different than President Trump's. The question is, How much will policy change in substance? Again, we expect cooperation in areas of mutual interest. But we also expect areas where the U.S. and its allies will see increased competition in the future.

On the issue of economic and trade relations, while we are unlikely to see inconsistent tariff proposals, President Biden has announced that 'Buy American' laws will be pursued more forcefully. This has an impact on our allies and trading partners. Nevertheless, we may be at the beginning of a return to a more multipolar world, where the U.S., China and Europe cooperate in some areas while competing in others.

P&I: Any final or parting thoughts?

MANIERI: We believe that investors need to be cautious, despite the recent run-up in global markets, and continuously evaluate long-term impacts of current policies. A thoughtful asset allocation, combined with diligent oversight [in order] to make tactical shifts when opportunities arise, is vital for investors to stay nimble in a changing world. ■

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Michael Reynolds/CNP

KEY DIFFERENCE: Justice Brett Kavanaugh wrote in the Thole decision that there is an important distinction between a defined benefit plan and a defined contribution plan.

Courts

Judges don't bite on DB defense applying to DC in ERISA cases

By ROBERT STEYER

Seeking to defeat ERISA complaints, some defined contribution sponsors are using a 13-month-old, pro-sponsor ruling by the U.S. Supreme Court that addressed defined benefits plans.

However, at the federal District Court level so far, most judges have rejected this DC legal defense, citing the Supreme Court's 5-4 ruling as making a distinction between DC and DB.

The key issue was whether DB participants had standing to sue if they weren't hurt by a sponsor's plan management. Because the DB plan was overfunded in the case of Thole et al. vs. U.S. Bank, NA, the Supreme Court said plaintiffs weren't harmed and thus lacked standing.

If DC sponsors could successfully use this "no harm, no foul" ruling, then they could persuade judges to dismiss complaints, thus reducing the costs of going to trial.

Since the Thole decision, at least a baker's dozen of federal court judges have said what's good for a sponsor's DB defense isn't acceptable in a DC setting. "Standing is the first rung on the ladder," said Nancy Ross, a Chicago-based partner for Mayer Brown LLP who represents some DC sponsors that have attempted to use the Thole decision as part of their defense. Like others interviewed for this article, she declined to discuss clients' cases.

"There is no quicker or easier way to knock out a case than with standing," Ms. Ross said. "If they don't have standing, it's done."

Just as plaintiffs' attorneys often file multiple allegations, sponsors' attorneys erect multiple defenses. The Thole strategy "is an additional way to make the argument," said Jerome Schlichter, founding and managing partner of Schlichter Bogard & Denton LP, St. Louis. He represents plaintiffs in ERISA cases, including some in which sponsors cited the Thole decision to claim participants lack standing to sue.

Wiggle room?

Despite the trend in lower court rulings, ERISA attorneys said they believe there is some wiggle room in the Supreme Court decision.

If the justices had wanted to exclude defined contribution plans from their opinion, "they could have been more clear," said Samuel Levin, of counsel for Groom Law Group, Washington, who has cited the Thole decision in representing some DC clients in ERISA lawsuits.

Still, the Supreme Court's ruling makes it "very difficult" for DC sponsors to win a dismissal by citing the Thole decision, said Joseph Torres, a Chicago-based partner for Jenner & Block LLP and chairman of the firm's ERISA litigation practice.

DC attorneys "need to be cautious about Thole as a defense," said Mr. Torres, who represents sponsors in ERISA complaints but who hasn't used the Thole decision as a defense. "It's very difficult because there is a material difference between the DC context and the DB context."

Like other attorneys interviewed for this article, Mr. Torres predicted it will take a while to establish what role, if any, the Thole decision might play in DC ERISA cases assuming various District Court judges' rulings are appealed.

The Supreme Court justices "distinguished" between DB and DC "but they didn't explain it a lot," said Karen Handorf, a Washington-based partner in Cohen Milstein Sellers & Toll PLLC. She represented James J. Thole in his suit against U.S. Bank, although another law firm argued his case before the Supreme Court.

Because she believes there's room for differing lower court interpretations, "you will need several appeals court decisions to nail this down," she said. "ERISA is full of questions."

SEE ERISA ON PAGE 23

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FRONTLINES

DOING ITS PART

PIMCO expands its commitment to fighting world hunger with donation

Pacific Investment Management Co. is doing its part to combat world hunger by donating $10 million to The Global FoodBanking Network, a Chicago-based global non-profit organization that provides better access to food to communities combating hunger.

In addition, PIMCO CEO Emmanuel Roman and CIO Dan Ivascyn will personally donate $5 million each to charities, including GFN, that provide food and resources to communities in need.

The donation is being made through the Newport Beach, Calif.-based money manager's PIMCO Foundation and expands upon a three-year partnership with GFN. The funds will be deployed over the next five years. The new funds will "aim to improve food access by distributing 17.9 million kilograms of food globally."

"Hunger is a persistent problem, made worse by COVID-19, which is why PIMCO recently announced a substantial increase in its commitment to the Global FoodBanking Network, the world's largest network of food banks," Mr. Roman wrote in an open letter on PIMCO's website earlier this month. "This builds on a significant investment we've already made to help address food scarcity."

The PIMCO Foundation previously donated $3.5 million to GFN. Since 2018, PIMCO has donated nearly $5.6 million to its charitable partners, including GFN.

"Investing in food banking is an effective and efficient way to combat hunger since it directly benefits those in need," said Nathaniel Brown, senior vice president and director of the PIMCO Foundation, in an email. "Food banks also help better allocate food so there is much less waste and subsequently less greenhouse gases from landfills."

PIMCO managed $2.16 trillion in assets as of March 31.

— JAMES COMTOIS

Lagos Food Bank Initiative

FOOD ACCESS: The Global FoodBanking Network unites and advances food banks in over 40 countries.

OPPORTUNITY: Milken Institute Singapore Internship Program interns during a virtual onboarding session.

TRAINING THE NEXT GENERATION

Milken Institute, Partners Group form intern program

The Milken Institute and Switzerland-based Partners Group AG have joined hands to contribute to a Monetary Authority of Singapore push to provide Singaporeans with "upskilling" opportunities to enhance the city-state's status as a global financial center.

On June 4, Milken and Partners Group announced the launch of the Milken Institute Singapore Internship Program, a turbocharged version of an effort Milken has pursued on its own over the prior four years. This year, 22 candidates, all recent graduates, were selected from a pool of more than 100 applicants — a class of interns roughly double the size of the program in previous years, said Melissa Petros, the Milken Institute's Hong Kong-based director, philanthropy and programs, who oversees the effort.

"The aim is really just to nurture young Singaporean talent so that they can continue to grow Singapore as an economic hub in Asia," she said.

Each intern works with mentors from Partners Group, a private markets-focused manager with more than $109 billion in assets under management or the Milken Institute in their areas of interest. Internships will run anywhere from four to 12 months.

"I have an intern who's working for me in philanthropy. He's really interested in impact investment and because we had that conversation he is now doing a project on impact investing research with Partners Group," Ms. Petros said.

Ms. Petros conceded that the virtual environment necessitated by the global pandemic in Singapore — where a pickup in the number of new cases recently prompted the government to impose tighter lockdown restrictions — has made it more challenging for interns to make the most of the networking opportunities the program would otherwise offer.

"We have had to adapt…but I think we've managed it really well," Ms. Petros said. There have even been some silver linings, she added. The level of speakers the program has been able to access, virtually, for its Global Leaders Speaker series — which provides interns with weekly opportunities to interact with prominent business leaders and academicians — has been amazing, she said.

— DOUGLAS APPELL

LAYING A PATH

Alts firms team up to diversify industry

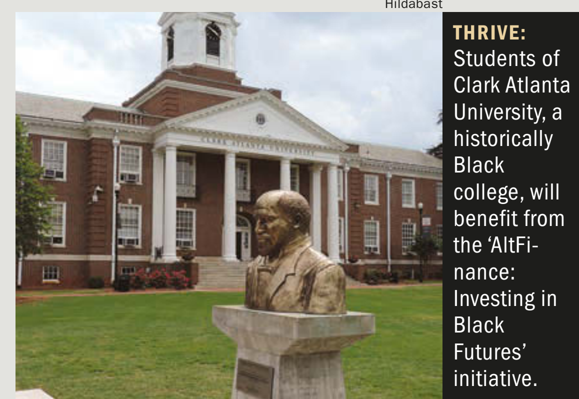
Alternative investment firms Apollo Global Management Inc., Ares Management Corp. and Oaktree Capital Management have joined forces to launch a new initiative designed to diversify the alternative investment industry.

The initiative, "AltFinance: Investing in Black Futures," will be launched in partnership with historically Black colleges Clark Atlanta University, Howard University, Morehouse College and Spelman College and is aimed at attracting, training and providing the schools' students with career opportunities.

A new non-profit organization, ALT Finance Corp., established by the three alternative investment firms, will administer the initiative.

The idea was sparked by Antony Ressler, Ares' co-founder and executive chairman, who called the leadership at Apollo and Oaktree and pitched the idea of teaming up to work with historically Black colleges, said Jerilyn Castillo McAniff, managing director at Oaktree and head of diversity and inclusion. "We were able to mobilize very quickly as it was perfectly aligned with our goals and made sense," she said.

The initiative consists of a mentored fellowship program, a customized virtual institute and a scholarship program. Students awarded with fellowships will learn the ins and outs of finance and alternatives directly from a dedicated mentor from one of the three firms. The fellowship program will be run in partnership with the non-profit organization Management Leadership for Tomorrow.


Hildabast

THRIVE: Students of Clark Atlanta University, a historically Black college, will benefit from the 'AltFinance: Investing in Black Futures' initiative.

John Rice, founder and CEO of MLT, said his organization's role will be to share the expertise gained in its mission to ensure that Blacks, Hispanics/Latinos and Native Americans are able to thrive at the highest levels of corporate America.

The virtual institute will be created by the Wharton School of the University of Pennsylvania and offer educational materials and tools for students at the four colleges.

The 10-year, $90 million initiative is expected to launch in the first half of 2022 and expand beyond the initial four colleges.

— ROB KOZLOWSKI

BUILDING AN INCLUSIVE WORKFORCE

Manulife promotes gratitude, inclusion in workplace

Manulife Financial Corp. has found a way to help its employees recover from the pandemic while also learning from the equity challenges COVID-19 brought to the surface.

On June 18, Toronto-based Manulife gave all 37,000 people in its global workforce the day off. The "Thank-You Day" repeats one from last year and officials there say it has now become part of the culture.

The day before, employees had the firm's first-ever Global Afternoon of Reflection and Learning, as part of Manulife's goal of having a more inclusive workforce and enlisting everyone in its effort to increase diversity, equity and inclusion. The day included webinars, keynote speakers and fireside chats with Manulife executives.

PROGRESS: Manulife's Pam Kimmet

The events were timed to coordinate with Juneteenth in the U.S. and Indigenous People's Day in Canada.

Manulife's Chief Human Resources Officer Pam Kimmet said in a news release that after ramping up DEI efforts last year, the global afternoon of reflection and learning and the thank-you day "allow us to take stock of our progress and devote time to gaining a greater appreciation of the many dimensions of diversity."

Since the firm announced DEI recruitment and leadership goals for North America last year, it has hit several milestones, including financial support and internships for Indigenous students, DEI interview guides for hiring managers, focused recruiting from diverse colleges and universities and hiring initiatives.

The commitment to DEI comes from the top. Performance goals for Manulife's executive leadership team members are linked to diversity, equity and inclusion, employee engagement and leadership accountability. The firm also partnered with Accenture PLC to give all 3,500 leaders worldwide access to two learning platforms on inclusive leadership and fighting racism.

There is more to do, Michelle Taylor-Jones, Manulife vice president for global diversity, equity and inclusion, said in the news release, but "we are taking action and holding ourselves accountable in both the short term, as well as over the long term."

— HAZEL BRADFORD

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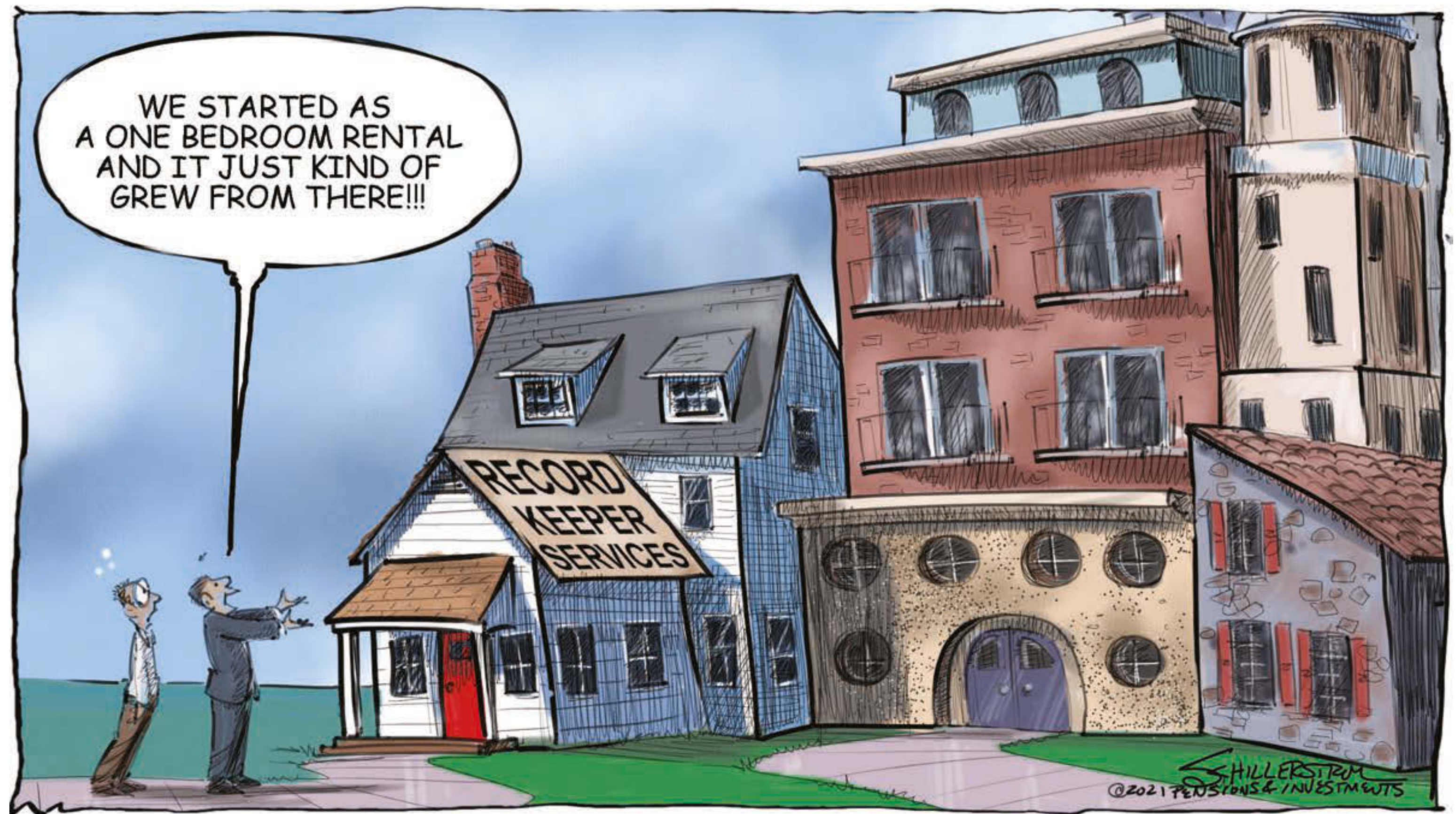
OPINION



EDITORIAL

Record keepers making changes for the long haul

Get big. Get cheaper. Get the technology up to date.

Those 10 little words pretty much sum up the marching orders for record keepers under unrelenting fee pressure from plan sponsor clients, which also are demanding robust cybersecurity protections and new services to bolster participant engagement. Those aren't unreasonable asks — but it's not an easy circle to square.

In the past few years, we've seen record keepers responding in several ways to accomplish those goals.

Mergers continue apace as firms race to gain scale and add services. Empower Retirement's acquisition of MassMutual's record-keeping business, completed earlier this year, solidified its No. 2 spot in *Pensions & Investments'* latest survey for the year ended Sept. 30. The deal brought 2.5 million participants in 26,000 workplace retirement plans to Empower's platform and boosted its assets by roughly $167 billion, to a total of $883.5 billion. Even so, the firm also credited investment in both front-end client-facing services and back-end data and infrastructure technology services for enabling it to grow assets.

Meanwhile, two other big players, Vanguard Group Inc. and T. Rowe Price Group Inc., have opted to outsource their technology systems to partners with the expertise of running complex reporting systems.

It's still too early to evaluate how these individual bets will pay off. Nevertheless, hopes are high among firms that building better systems for clients and developing better tools and services for participants — everything from budgeting help, HSAs and emergency savings to student loan services — will produce better outcomes for all.

And all of these efforts serve to set these firms up for opportunities in the future.

Cerulli Associates Inc. estimates that retiring employees are transferring some $500 billion annually from defined contribution plans to retail firms.

With that flow likely to continue as more and more baby boomers move into retirement, it is hard to overlook the connection between today's investments and alignments and tomorrow's business. We hope that this means retirees, as they move beyond fiduciary-led plans, also will be served well.

OTHER VIEWS LUKE PROSKINE

4 key questions should drive focused OCIO matchmaking

Luke Proskine is co-managing partner at Makena Capital Management LLC, Menlo Park, Calif.

The last decade has seen tremendous growth in outsourced CIO assets, to more than $2 trillion today from just $100 billion globally in 2007. However, the term OCIO is broad, at best. A wide spectrum of firms are expanding the breadth of their OCIO services with different goals, strategies and fees.

A side industry of search consultants — advisers that charge handsome fees to conduct an OCIO search — has emerged to assist institutions with negotiating the complex OCIO landscape. Yet even with the assistance of a search consultant, an institution's decision-makers must be able to clearly articulate their goals and needs to navigate the OCIO landscape and ultimately select the best provider to help meet their objectives.

Combined with each firm's specific nuances, and the layer of additional complexity by involving a search consultant, an institution's decision-maker is likely to have a difficult time directly comparing each firm using common criteria.

At the foundation of any OCIO search are the institution's goals, pain points and needs, which determine how that institution navigates the OCIO landscape and ultimately selects a provider. Below we discuss four key areas of differentiation and list associated questions to drive an institution's focused OCIO search.

1. Investment strategy

Targeting an OCIO provider that partners with institutions like yours is

SEE PROSKINE ON NEXT PAGE

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OPINION

Proskine

CONTINUED FROM OPPOSITE PAGE

a good place to start. Whether your primary goal is risk mitigation for defined benefits, long-term appreciation plus payout, or something in between, there are OCIO providers specializing in an investment strategy to suit your needs. Some specialized strategies include:

- Low-cost passives that minimize fees and offer greater liquidity.
- Manager selection and alternative strategies, seeking to capture a return premium for illiquidity risk.
- Rigid strategic asset allocation driven by a top-down framework.
- Thematic-driven investing, such as ESG or sustainability mandates.

Having a clear vision of your institution's risk and return goals and decision-making abilities will significantly narrow the type of OCIO provider whose services best fit your needs.

Understanding your institution's needs and ensuring alignment in these four key areas of strategy, discretion, customization and fees are critical to navigating the vast and diverse OCIO landscape.

2. Discretion

One of the main criteria to consider is whether an institution's decision-makers want to retain discretion over investments, or if that should be delegated to the OCIO provider.

Some OCIO firms may require full discretion, and with that added responsibility likely comes a higher management fee. Other firms may offer a more consultative OCIO service where they propose investments that are ultimately chosen by the institution's decision-makers.

Some OCIOs offer the ability to meet somewhere in the middle, with a model where institutions can make complementary allocations to asset class vehicles or to liquidity pools, allowing them to customize their asset class exposure, risk and return profile, and liquidity. While the OCIO maintains discretion over these vehicles, their institutional clients maintain discretion over the size of their complementary allocations and therefore their exposures. In the case of liquidity pools, clients maintain an additional layer of discretion since they decide which investments to include — typically passive vehicles of stocks or bonds — and how to allocate among them.

Many investment committees have regular turnover, which presents a challenge to continuity. In these instances, delegating discretion to an OCIO provider's dedicated team can provide the continuity required to ensure an institution meets its goals over the long term.

Discretion is also relevant to an institution's ability to make timely investment decisions, especially in a volatile market when you need to act quickly to protect against permanent capital loss.

Investment discretion should be detailed in the investment policy statement, as well as items such as benchmarking, reporting guidelines and client service expectations.

3. Customization

Customization is often perceived as a clear benefit because it allows institutions to fine-tune risk, return and liquidity parameters to fit their specific needs. For example, if institutions have stringent ESG requirements, full customization may be a great option.

However, OCIO firms offering custom portfolios may approach customization differently, and it is critical to understand what level of customization is offered. Some provide completely bespoke investments, while others customize using commingled pools as building blocks, enabling custom allocations but not bespoke investments. A commingled approach can be favorable when capacity-constrained alternative investments are included, removing potential allocation conflicts. A commingled approach might also better align interests among clients; a customized approach could lead to misalignment among clients, especially if a particular client pays higher fees compared with other clients.

4. Fees

OCIO fees may be advertised anywhere from 10 basis points to 100 basis points or more. But these numbers have little meaning without clarity on what costs are included or excluded. Depending on the provider, a la carte services and expenses such as customized reporting, legacy investment management, audit, tax, custodian and administrative may be excluded.

Equally important, fees should represent the level of service provided. Actively managed or alternative strategies will cost more than passive strategies because of the resources required for optimal execution.

OCIO fees come in several different flavors: flat management fees, tiered management fees, performance fees, negotiable fees, supplemental fees for add-on services (e.g., access to alternatives or legacy portfolio oversight), etc.

Transparency is also critical when comparing fees among OCIO providers. If the OCIO provider allocates to third-party managers, what fees do they earn? Are third-party managers affiliated in any way to the OCIO provider?

The OCIO industry has a vast spectrum of choices. Even when two OCIO providers may appear comparable at first glance, there are likely nuances and intangibles (concerning anything from track record to fees to client service) that must be approached with caution and transparency to accurately compare them. Understanding your institution's needs and ensuring alignment in these four key areas of strategy, discretion, customization and fees are critical to navigating the vast and diverse OCIO landscape. ■

This content represents the views of the author. It was submitted and edited under Pensions & Investments guidelines but is not a product of P&I's editorial team.

OTHER VIEWS DANIEL PIETRZAK

Private asset-backed finance attracting investor interest amid low interest rates

Just as direct lending has become a mainstay of private credit portfolios over the past decade, private asset-based finance is the latest strategy to capture widespread attention. With nominal interest rates near record lows, investors are taking notice of the above-average yields and downside protection offered from a diversified portfolio of assets.

Today, asset-based finance, or non-corporate lending against financial and hard assets, represents a $4.5 trillion market, which is forecast to grow to $7 trillion in the next five years, according to estimates based on shadow banking data from the Financial Stability Board. With favorable secular and cyclical tailwinds and an investible universe 10 times larger than corporate direct lending, ABF is still in its early innings as an asset class.

While ABF has long been a ubiquitous source of financing for millions of global businesses and consumers, the market has evolved for the better since the global financial crisis. As securitization declined and banks pulled back, well-capitalized private lenders stepped in to fill the funding gap. They have in turn created more appealing — and dependable — ways for institutional investors to access the ABF asset class.

For borrowers accessing credit types as diverse as fix-and-flip lending, point of sale consumer credit, equipment leasing and used auto financing, the benefits are clear. As more investors enter the market and fill the funding gap, businesses and consumer borrowers can access more options and competitive rates.

The appeal to investors is easy to understand. By pursuing underserved and mispriced lending opportunities, ABF offers attractive yields and exposure to large, diversified pools of assets. Private credit investors are creating scaled exposures to a diverse set of lending opportunities, often through platforms that combine underwriting and servicing expertise with deep sector experience.

By pursuing underserved and mispriced lending opportunities, ABF offers attractive yields and exposure to large, diversified pools of assets.

ABF is a strategy well suited to these times, owing to the downside protection of collateral-based loans, diversity of borrowers, and customized investment structures.

The opportunity to invest in ABF has grown as structures have evolved to include locked-up capital and increasingly permanent capital vehicles (such as interval funds) that can foster added stability and longer-term growth strategies. ABF also can get exposure from prime and near-prime borrowers across multiple industry sectors, population demographics and geographies.

Private asset-based finance market focuses on areas of the lending market that are underserved by traditional lenders, secured by collateral ranging from homes and vehicles in consumer lending to inventory and equipment in the small and midsize enterprise market. It also lends against hard assets such as aviation leasing and contractual cash flows like royalty financing.

The strong performance of diversified ABF portfolios during the pandemic is a testament to the resiliency of the asset class. Though there is no benchmark, each investment being idiosyncratic, ABF did not experience massive volatility like public equities and traded credit (loans, bonds, CLO liabilities, ABS), nor were there widespread reports of leverage providers seizing and liquidating assets due to margin calls. Many managers took measures such as turning off new loan origination and offering payment holidays and cancellations to increase the odds of ultimate repayment. The vast majority have rebounded well — to pre-pandemic levels or above.

Daniel Pietrzak is partner and co-head of private credit at KKR & Co. Inc., New York.

Still there are also risks. The fundamental one is credit risk. Investors must examine how the underlying loans will behave in different scenarios through granular, bottom-up modeling that can involve millions of lines of data. Another is negotiating optimal structures to withstand macroeconomic and financial cycles, as well as adequately scaling and deploying of assets.

Private lenders have become more sophisticated thanks to financial technology innovations and artificial intelligence. Big data helps providers make better loans, faster.

New cadres of fintechs reliant on funding from private capital, such as marketplace and point-of-purchase lenders, are streamlining credit consumption. They are leveraging e-commerce, using algorithms for underwriting and risk assessment in novel ways that revolutionize origination and the customer experience. Forward-thinking legacy lenders are also driving innovation.

Powerful machine-learning models can analyze broad datasets to qualify new customers for credit services, score risk and determine loan limits and pricing. These platforms can help providers offer competitive rates and increase the availability of financing in niche sectors, while keeping risk costs low and reducing fraud.

ABF also can offer investment exposure in interesting and often proprietary investments, such as music intellectual property rights.

Some have valuations over $100 million, and the biggest names could reach $500 million, or more. With substantial cash flows and low correlation to other asset classes, music IP can present compelling value in a world with high equity multiples and record low interest rates.

Goldman Sachs and Morgan Stanley project annual streaming growth for the next few years around 13%. In addition, music rights owners can further leverage their investments by partnering with musicians and pursuing sync placements in movies, TV shows and video games. Investors can own pieces of their favorite music with the potential for meaningful diversification and double-digit returns on invested capital.

Another area with substantial opportunities is auto loan markets, specifically in the United Kingdom. In 2015, the U.K. used-car market was a £50 billion ($71 billion) industry, yet only £12 billion was financed at the point of sale with dealers. Multiple finance companies targeted different demographics.

For global investors seeking potentially high yields, downside protection and portfolio diversification, ABF can be an appealing option. ■

This content represents the views of the author. It was submitted and edited under Pensions & Investments guidelines but is not a product of P&I's editorial team.

ESG ROUNDUP

Maine law requires state fund to divest fossil-fuel companies

Maine Gov. Janet Mills signed into law a bill that would require the $17.6 billion Maine Public Employees Retirement System, Augusta, and the state treasurer to divest holdings in fossil-fuel companies by Jan. 1, 2026.

The legislation also requires the pension fund and the state to halt investing in multiple fossil-fuel companies. The state treasurer cannot invest in prime commercial paper or corporate bonds issued by fossil-fuel companies.

Fossil-fuel investments represent $1.34 billion, or 7.6%, of pension fund assets, said Sandy Matheson, MainePERS executive director, in an email June 18.

"One of the key provisions of the bill is that any actions must be in accordance with sound investment criteria and consistent with fiduciary obligations," Ms. Matheson wrote. "We haven't developed a plan at this point, but any plan we develop has to put the financial interests of our members first. We will not be taking any actions that create a loss for the plan."

The law says pension fund's board of trustees "shall review the extent to which the assets of any state pension or annuity fund are invested in the stocks, securities or other obligations of any fossil fuel company." In addition, such a review will include "any subsidiary, affiliate or parent of any fossil fuel company."

The law defines fossil fuels as coal, petroleum, natural gas or any derivative of coal, petroleum or "natural gas that is used for fuel."

High court sends Goldman suit back to lower court

A proposed class-action lawsuit led by the $20.7 billion Arkansas Teacher Retirement System, Little Rock, against Goldman Sachs Group hit a roadblock June 21 when the U.S. Supreme Court ordered the 2nd U.S. Circuit Court of Appeals in New York to reconsider allowing shareholders to pursue a class action over alleged misrepresentations made during the subprime mortgage crisis about its ethical principles and internal controls over conflicts of interest.

The 2011 lawsuit stemmed from Goldman Sachs' Abacus collateralized debt obligation, a subprime mortgage-based financial instrument assembled with the help of hedge fund Paulson & Co. Goldman Sachs' contrary bet against the CDO was not disclosed to investors, leading to its $550 million settlement with the SEC in 2010.

The Supreme Court's 8-to-1 decision agreed with Goldman Sachs' argument that its issuer statements may have been too generic to affect Goldman's stock price. The appeals court will now reconsider the question.

Goldman Sachs had also warned in its Supreme Court petition that shareholders have too much power to pursue such class-action alliances, and allowing the lawsuit to continue "will have enormous practical consequences for public companies." That stance was supported by several industry groups concerned that class certifications for such lawsuits should require investors to show that corporate misstatements had a material impact on share prices.

The Supreme Court did agree with the appeals court that defendants, not shareholder plaintiffs, bear the burden of persuasion to prove a lack of price impact.

It is an important victory for investors, said Laura Posner, a partner with Cohen Milstein. "The decision confirms that defendants bear the burden to demonstrate by a preponderance of evidence a lack of the price impact, including in cases where the price maintenance theory is alleged."

Fed Thrift should consider climate change – GAO

The Government Accountability Office recommended the Federal Retirement Thrift Investment Board, Washington, evaluate the Thrift Savings Plan's investment offerings with an eye on risks related to climate change.

In a report that was published in May and publicly released June 24, the GAO said retirement plan investments, including the TSP's, could be exposed to financial risks from climate change. The Thrift board "has not taken steps to assess the risks to TSP's investments from climate change as part of its process for evaluating investment options," the GAO stated in its report.

The Thrift board administers the $757.8 billion Thrift Savings Plan for federal employees. The board is required to invest the TSP's funds passively.

Ravindra Deo, the Thrift board's executive director, said in a letter to the GAO in April that the FRTIB "subscribes to a strict indexing discipline using the broadest possible market opportunity set. As such, individual companies are held in the TSP index funds at their market weights, in line with the theory that markets are generally efficient and that the market portfolio is the most efficient from a risk and return perspective."

Mr. Deo also noted that the board has an investment consultant review the TSP fund offerings periodically to determine whether the offerings are appropriate and if additions are warranted. The next review is slated for fiscal year 2022, he added.

CalPERS, 2 managers add DEI positions

CalPERS, Blackstone and Acadian Asset Management each announced diversity, equity and inclusion hires earlier this month.

Marlene Timberlake D'Adamo was named chief diversity, equity and inclusion officer, effective immediately, at the $469.8 billion California Public Employees' Retirement System, according to a news release June 21.

Ms. Timberlake D'Adamo had been serving in the DEI position on an interim basis since June 2020, in addition to her role as chief compliance officer, which she began in 2016.

In her new position, Ms. Timberlake D'Adamo partners with the Sacramento-based pension plan's ESG investment team to help identify and analyze emerging diversity, equity and inclusion issues and investment opportunities.

At Blackstone Group, **Devin Glenn** was named managing director and global head of diversity, equity and inclusion.

It is a new position, a spokeswoman said in an email. Ms. Glenn will be responsible for continuing to implement current policies and initiatives for Blackstone and its portfolio companies to achieve a more diverse and inclusive workplace, a news release said June 22.

She was previously assistant director of diversity, equity and inclusion at law firm Skadden, Arps, Slate, Meagher & Flom.

Also, **Rebecca Rosen** was named director of diversity and inclusion at Acadian Asset Management. The position is new.

Based in Boston, Ms. Rosen will lead the firm's global strategy for D&I, including setting realistic and aspirational goals, and expanding Acadian's existing strategy to heighten staff engagement, develop and retain talent, and increase its positive impact on the community.

Ms. Rosen was director of diversity at Tufts Health Plan.

Blackstone has $649 billion in assets under management; Acadian had $110 billion in AUM as of March 31.

Shareholder advocates press firms on voter rights

Voter suppression and other election threats are capturing the attention of shareholder advocates, including a coalition of institutional investors that called on companies June 16 to stop contributing to elected officials supporting it.

The open letter to corporate directors of 82 companies from more than 125 state treasurers, public pension fund trustees, foundations and socially responsible investors with a collective $1.5 trillion in assets said that as fiduciaries and trustees of public funds and retirement savings, "we are concerned with the erosion of political stability in the United States."

The letter also asked companies to stop contributing to any elected official who voted against certifying the 2020 presidential election and to disclose all political contributions. "We are facing an existential threat to the election system in the U.S. which poses substantial systemic risk to long-term investors' portfolios. This is not a question of partisan politics — many Democrats and Republicans have opposed contemporary attacks on the functioning of American democracy — but of ensuring voter participation and enfranchisement. The question for corporations is whether to continue operating under business-as-usual assumptions or recognize this threat and take action," the letter said.

Signatories include public pension fiduciaries in California, Oregon, Rhode Island, Connecticut, Maryland, Massachusetts, Minnesota, Vermont, Chicago and New York City.

Sustainable European strategies get 52% of flows

Sustainable investment strategies gathered 52% of all European net new inflows in 2020, with assets in these products accounting for 11% of total AUM.

The inaugural European Sustainable Investment Funds Study by Morningstar, management consultancy zeb and the Association of the Luxembourg Fund Industry showed sustainable strategies accounted for 11% of a total €10.25 trillion ($12.59 trillion) in assets in Europe as of Dec. 31, up from representing 7% of a total €9.66 trillion a year earlier and 5% of a total €7.96 trillion as of Dec. 31, 2018.

In terms of net inflows, sustainable strategies attracted 52% of €414 billion in total net inflows in 2020, compared with 30% of €375 billion in 2019 and 22% of €172 billion in net inflows in 2018.

BlackRock to integrate Baringa's climate modeling

BlackRock will acquire and integrate business and technology consultant Baringa's climate-change scenario model into its own climate-risk capability.

The money management firm entered a definitive agreement to acquire Baringa's technology, which is used by clients with more than $15 trillion in assets, with the aim of bringing it together with BlackRock's Aladdin Climate technology.

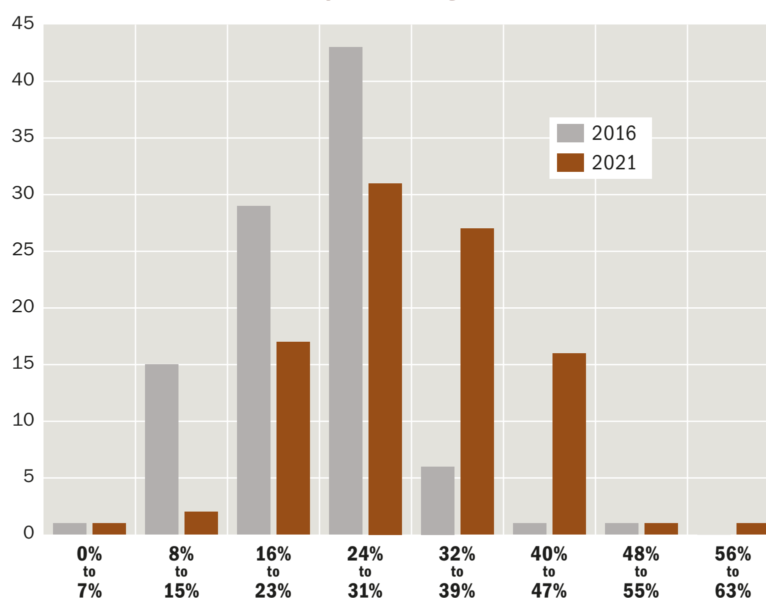
The Aladdin Climate technology is part of BlackRock's Aladdin platform, which combines risk analytics with portfolio management, trading and operations tools.

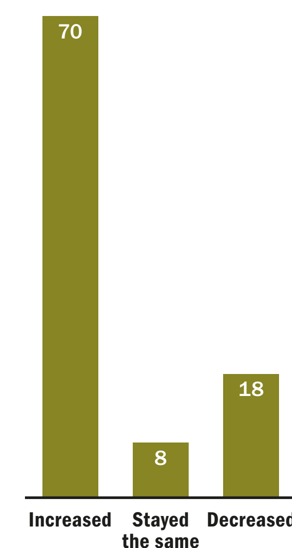
Under the agreement, BlackRock and Baringa will collaborate to set the standard for modeling the effects of climate change and the transition to a low-carbon economy on financial assets.

The Baringa deal follows BlackRock's partnership with independent research firm Rhodium Group, cemented last year. That partnership aims to tackle the data challenge related to the physical impacts of climate change. Rhodium uses climate science, economics, big data and cloud computing to provide evidence-based insights into climate scenarios.

S&P 100 boards getting more gender diverse

More than 70% of S&P 100 companies have increased their female board representation since 2016. As of 2021, 30% of the median company's board is female — ranging from Charter Communication's 7% to 58% for General Motors — up from 25% in 2016. Gilead Sciences had the greatest relative improvement over that time span, increasing to 44% from 11%. This was followed by Goldman Sachs Group's 31-percentage-point gain to 46%, and PayPal's 25-percentage-point increase to 36%. Four companies in the S&P 100 were excluded from the calculations due to major mergers and spinoffs.





Source: Company reports

EXCHANGE-TRADED FUNDS

Halfway through 2021, ETF flows already near new record

By ARI I. WEINBERG

The exchange-traded fund market is red hot.

On the heels of a record year for net inflows at $487 billion, the ETF market could surpass that amount in just a few weeks — with half a year to spare. According to FactSet Research Systems Inc., through June 21, U.S.-listed ETFs had captured $434 billion in net inflows and, unlike prior periods of intense asset growth for ETFs, this flow rally is remarkably broad.

"A majority of the flows is coming from ETF models, which have grown significantly in the past year," said Reginald M. Browne, New York-based principal at electronic market maker Global Trading Systems LLC. "While the risk-on rally began last year with a large-cap bias, there has been a shift to value this year. Many sector funds are reinflating, as well as commodities and raw materials ETFs, rolling all the way down to short-duration fixed income."

But Mr. Browne said that self-directed retail investors (even those who rally behind meme stocks) can't be overlooked as drivers of recent ETF activity. "They are a little bit less brand-driven and show no allegiance to any one issuer," he said. AT GTS, according to Mr. Browne, the ticket count from retail brokerage apps has doubled in the past year. Moreover, retail money market fund assets have been steadily declining, down $100 billion to $1.43 trillion since early February, according to Investment Company Institute data through June 16.

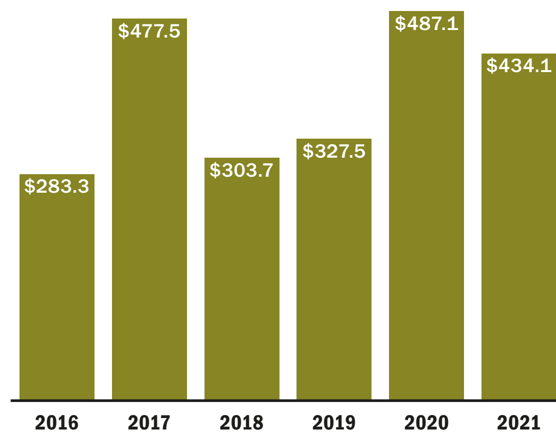
In an recent research note, Matthew Bartolini, head of SPDR Americas research at State Street Global Advisors in Boston, wrote that 66% of products had experienced net flows through April 30, the highest "hit rate" for the first four months since 2014 when the industry product count was 40% less.

"In a more dispersed return environment, we're seeing more dispersed flows," Mr. Bartolini said. "The reflationary trade is driving interest in sector funds as investors look to generate alpha by overweighting cyclical industries, including financials, raw materials, and consumer discretionary, and underweighting health care, consumer staples, and utilities."

Among the ETFs punching above their weight in flows this year include the $48 billion Financial Select Sector SPDR Fund, the $14.8 billion iShares MSCI EAFE Value ETF, and the $9.6 billion Vanguard FTSE All-World ex-US Small Cap ETF. Each of these ETFs — among nearly 500 others — experienced net inflows at roughly 50% or more than their 2020 year-ending assets through June 10, according to FactSet Research Systems.

Moreover, 67 issuers are now managing between $100 million and $1 billion, up from 53 at the end of last year. "They have just enough assets for a good business without a major breakthrough fund," said Mr. Browne of GTS.

This breadth of activity is building what Bloomberg Intelligence senior ETF analyst Eric Balchunas has called the ETF "middle class," where investors are lifting products and providers into long-term efficacy. While the hot hands at ARK Investment Management LLC attracted billions in assets earlier in the year, other thematic and specialty product providers have been able to draw investor assets. Examples here include the $198 million Direxion Moonshot Innovators ETF, the $170 million First Trust TCW Securitized Plus ETF, and the $389 million North Shore Global Uranium Mining ETF, each adding more than 500% of their year-end assets in net flows through June 10, according to FactSet. The strength in flows has been accompanied by a near stemming of ETF closures, with only 20 products being pulled from the market as of June 17, compared with 138 over the same period last year. And new products and entrants to the market over the next few years could look more like old faces. While the conversion of two Guinness Atkinson Asset Management mutual funds to ETFs in March was a groundbreaking move, Dimensional Fund Advisors LP's shift of four mutual funds to ETFs on June 14 provided a road map for large-scale conversions, boosting Dimensional's ETF assets under management to $30 billion from $2 billion in a day.



"A similar decision by a firm like Capital Group could change that conversation completely," said Daniil Shapiro, associate director of product development at research and consulting firm Cerulli Associates Inc. This wraps into the "other big flow story," according to Mr. Shapiro, as the fund industry looks to find any form of kryptonite to beat back the relentless rise of Vanguard Group Inc.

According to FactSet, Vanguard has pulled in $152 billion in net flows this year, nearly double the assets gathered by BlackRock Inc. at $80 billion, giving Vanguard $1.83 trillion in U.S. ETF assets compared with BlackRock's $2.28 trillion. ■

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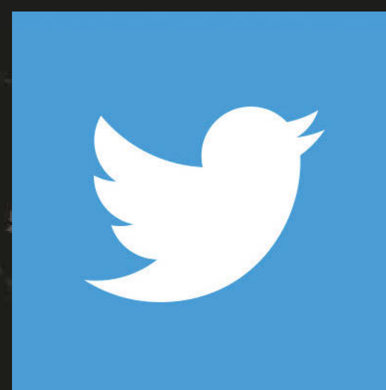
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Special Report

INVESTMENT OUTSOURCING

Mass customization aimed at retail growth

Managers, consultants look to diversify client base to meet rising retail demand

By CHRISTINE WILLIAMSON

Money managers and investment consultants that manage money, including those with outsourced CIO strategies, increasingly are looking to offer and expand their mass-customization strategies to further diversify their client base in retail channels.

Individual managers and consultants internally define mass customization in different ways, but at its most basic level, the label refers to the ability of a manager, consultant or a financial intermediary — such as a wealth manager, registered investment adviser or broker-dealer — to "deliver personalized investment strategies at scale," said Bryan J. Dori, president and CEO of Archer IMS LLC, Berwyn, Pa., a technology service provider to investment companies, in an email.

He said mass customization is growing due to rising retail investor demand and the opportunity it presents for institutional money managers and other providers of investment strategies, as well as technology advances that make mass-tailored portfolios possible.

"Today's investors are accustomed to a personalized experience in all aspects of their (lives) from the way they order their coffee to the way they consume television. They are less likely to invest in out-of-the-box investment products. They want to control ESG preferences and restrictions, optimize the after-tax returns of their portfolios and have transparency into what companies their dollars are being invested in," Mr. Dori said.

Money managers "offering existing strategies in new packaging creates an opportunity to reach new audiences while leveraging the manager's existing investment talent and expertise," he said.

Among the personalized strategies in demand by the existing and new retail clients of money managers and financial intermediaries are model portfolios; separately managed accounts; unified managed accounts, which combine separately managed accounts; thematic; outcome-oriented strategies; and customized target-date funds, sources said.

Pace increasing

"Money managers absolutely are looking to offer mass customization. The topic has been coming up a lot in conversations with money managers over the past five or six years" and the pace of adoption is quickening, said Jeffrey A. Levi, a Stamford, Conn.-based principal at Casey Quirk, a practice of Deloitte Consulting LLP, which advises money managers.

DEMAND: Bryan J. Dori defined mass customization as delivering 'personalized investment strategies at scale.'

"Mass customization is the future of financial advisory, and it's a big area of growth for wealth platforms that want to offer a suite of SMA and model portfolios," Mr. Levi said.

Model portfolios are multiasset portfolios created by money managers, consultants and financial intermediaries to meet investors' goals and/or their risk tolerances.

In addition to investor demand, another strong driver behind the growth of personalized investments is the industrywide move by financial intermediaries toward fee-based asset growth, which includes advisory services for investors, and away from commission-based retail investment management, Mr. Levi said.

He added that the changing landscape of the retail and wealth management industry is prompting more financial intermediaries to work with money managers and consultants that can provide model and separately managed account portfolios that are customizable to varying degrees — usually depending on client size — that reflect the investor's risk tolerance, income needs and personal values.

Money managers and consultants that manage money have taken notice of the potential of mass customization for their bottom line.

The vast majority — 80% — of the 250 senior executives of U.S. and Canadian money managers surveyed by Accenture PLC in November and December said they believed that "customization for the masses will be an important investment strategy over the next five years," according to the firm's "The Future of Asset Management" report published in May.

"Financial intermediaries are doubling down on developing the technology and data analytics they need for mass customization" and are hiring managers that can create model portfolios and SMAs, said Girard M. Healy, Boston-based managing director in Accenture's North American asset management group, in an interview.

For money managers, "mass customization does require significant scale and the right technology to provide digital and mobile technology" to meet retail investor expectations, Mr. Healy said.

Consultant Wilshire Advisors LLC, Santa Monica, Calif., initially offered its institutional capabilities in asset allocation, portfolio construction and fund selection to the investment adviser industry, but mainly in prepackaged solutions for advisers working with retirement plans and individual investors, said Nathan Palmer, managing director, in an email.

By "leveraging technology to provide the benefits of both customization and automation together — mass customization — (Wilshire has been able) to create flexible, high-quality investment solutions unique to the individual adviser, retirement plan or end investor irrespective of size," Mr. Palmer said.

He added that Wilshire has also harnessed its investment technology to power customized advice for retirement plan participants; target-date portfolios that plan sponsors can customize by setting the glide path, vehicle, asset class, active/passive mix and fund selection; and model portfolios for wealth

Investment outsourcing at a glance

Managed for institutional investors. Assets are in millions as of March 31.

	2021	One-year change	Five-year change
Total worldwide outsourced assets*	$2,813,596	21.5%	84.1%
Worldwide outsourced AUM**	$2,461,643	22.7%	90.5%
Managed with full discretion	$1,947,022	23.8%	124.5%
Internally managed	$570,422	13.7%	105.8%
Total U.S.-client outsourced assets*	$1,926,289	19.0%	87.2%
U.S.-client outsourced AUM**	$1,627,554	20.1%	87.2%
Managed with full discretion	$1,275,592	20.5%	141.8%
Internally managed	$295,850	9.5%	93.0%
Total worldwide outsourcing clients	29,151	3.9%	168.5%
U.S. outsourcing clients	26,161	4.0%	202.4%
U.S. outsourcing clients by type:			
Endowment	2,136	1.8%	172.1%
Foundation	4,861	-1.2%	416.6%
Defined benefit	1,834	-7.1%	63.5%
Defined contribution	10,756	12.7%	809.2%
U.S.-client outsourced AUM by type:**			
Endowment	$96,161	26.3%	—
Foundation	$105,901	35.3%	—
Defined benefit	$561,500	6.9%	—
Defined contribution	$246,377	54.8%	—
Total outsourcing employees	21,676	1.5%	—
Investment professionals	2,785	0.0%	—

*Includes outsourcing assets managed with full/partial discretion or on a non-discretionary basis.
**AUM includes outsourcing assets managed with full/partial discretion only.
Historical data may include retroactive updates.

The largest managers of outsourced assets

Worldwide institutional outsourced AUM, with full/partial discretion, in millions, as of March 31.

Rank	Manager	Assets
1	Mercer	$366,986
2	Goldman Sachs Group	$207,701
3	Aon	$202,809
4	Russell Investments	$183,809
5	State Street Global	$181,157
6	Willis Towers Watson Invest.	$167,740
7	BlackRock	$158,663
8	SEI Investments	$106,300
9	Northern Trust	$100,464
10	Vanguard Group	$61,914
11	Alan Biller and Associates	$61,254
12	NEPC	$53,678
13	River & Mercantile Solutions	$43,000
14	CAPTRUST Financial	$42,920
15	Aegon Asset Mgmt.	$39,683
16	Cambridge Associates	$36,409
17	Bank of America	$35,373
18	J.P. Morgan Asset Mgmt.	$33,882
19	PNC Financial	$30,089
20	Strategic Investment Group	$29,426
21	Meketa Investment Group	$20,600
22	Wilshire Advisors	$20,409
23	Fidelity Institutional	$18,384
24	SECOR Asset Mgmt.	$17,411
25	PFM Asset Mgmt.	$17,207
26	BNY Mellon	$16,637
27	Sterling Capital	$15,501
28	Commonfund	$12,943
29	Agility	$12,033
30	Pentegra Investors	$11,980
31	Marquette Associates	$10,952
32	Global Endowment Mgmt.	$10,823
33	Callan	$10,628
34	Hirtle, Callaghan	$10,600
35	Highland Associates	$10,541
36	Fiducient Advisors*	$10,310
37	Segal Marco Advisors	$10,270
38	CornerStone Partners	$10,066
39	Commerce Trust	$8,858
40	Aetos Alternatives	$8,262
41	Fund Evaluation Group*	$8,000
42	TIFF Advisory Services	$7,437
43	Conrad Siegel	$7,018
44	Angeles Investment Advisors	$6,394
45	Verus	$5,267
46	Gallagher Fiduciary*	$4,192

management firms that select the investment options while Wilshire handles asset allocation and manager structure.

"We remain extremely excited about the prospects for the success of mass-customized discretionary portfolios within the wealth management channel," Mr. Palmer said.

He said Wilshire estimates that the use of model portfolios in the wealth management segment exceeds $1 trillion, about four times the adoption by retirement plans, but still represents less than 10% of wealth management assets.

"We believe that the development of new investment technologies … will enable advisers to automate and streamline the creation of customized models," Mr. Palmer said.

Wilshire had assets under advisement of $1.4 trillion and $87 billion under management as of March 31, of which $20.4 billion was managed for institutional investors worldwide with full or partial discretion in OCIO strategies, according to data the firm provided for *Pensions & Investments'* annual OCIO report. Wilshire did not provide assets managed for retail and wealth management investors.

Common denominator: OCIO

For the most part, OCIO strategies are the common thread of customization among money managers and consultants.

Ryan Marshall, managing director and co-head of multiasset strategies and solutions at BlackRock Inc., New York, for example, stressed that the firm's institutional OCIO business is highly custom-

SEE **CUSTOMIZE** ON PAGE 16

Larger asset owners seen as next frontier for outsourcing

More large institutional investors are taking notice of OCIO as an alternative to managing investment portfolios internally, according to industry veterans.

"The OCIO industry is going up market. We're seeing more mandates of $5 billion, $10 billion and $30 billion," said Rich Nuzum, president of Mercer LLC's investments and retirement business in New York, in an interview.

OCIO clients have more options for customization, including for fund structures and more access to in-demand money managers than smaller asset owners can command, he said.

Mr. Nuzum said he anticipates that "a lot more large investors will turn to OCIO, including endowments, foundations, health care, insurance companies and family offices."

Mercer managed a total of $380 billion as of March 31, of which $367 billion was managed in OCIO assignments managed with full or partial discretion for worldwide institutional investors. Mercer is the largest OCIO manager, according to *Pensions & Investments'* annual survey of OCIO managers.

"Previously, OCIO was considered a strategy for small- to midsized asset owners but the size of OCIO mandates definitely is rising," said Kevin J. Turner, managing director and head of investment strategy and solutions for Russell Investments, Seattle, in an interview.

Russell managed a total of $326 billion as of March 31, including $183.8 billion of OCIO assignments managed with full/partial discretion for worldwide institutional investors — which ranked fourth according to *P&I* data.

BlackRock Inc., New York, was awarded the industry's most recent mega-mandate by British Airways PLC, Harmondsworth, England, to run £21.5 billion ($30.3 billion) in OCIO structures for two defined benefit plans.

Arnold Adler

EVOLVING INDUSTRY: Rich Nuzum said the size of OCIO mandates continues to increase as the market grows.

As of March 31, The firm's New Airways Pension Scheme had £19.4 billion of assets and the Airways Pension Scheme had £7.4 billion.

British Airways said in a news release that intensified regulation, rising operating costs, increased investment complexity, changing investment needs and mature defined benefit plans were the impetus for the move to an OCIO partnership with BlackRock.

Ryan Marshall, New York-based managing director at BlackRock and co-head of multiasset strategies and solutions, said in an interview

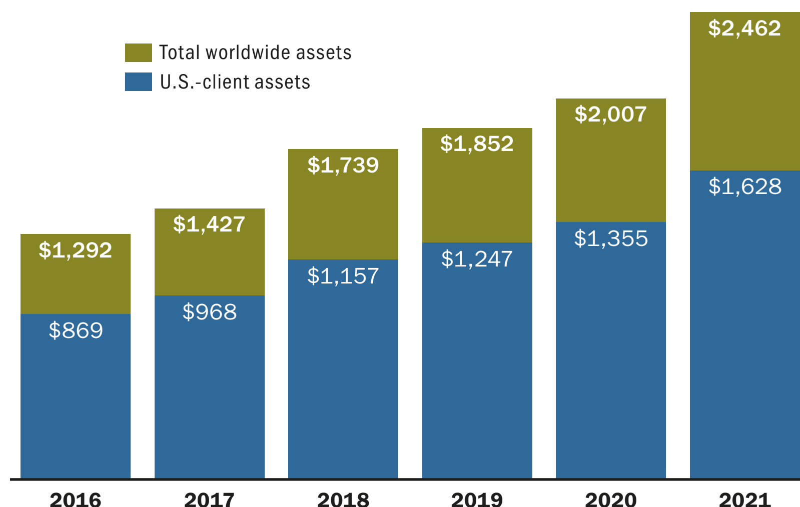
SEE **LARGER** ON PAGE 16

Rank	Manager	Assets
47	**Prime Buchholz**	$3,002
48	**Spider Mgmt.**	$2,470
49	**Canterbury Consulting***	$2,153
50	**Verger Capital**	$2,107
51	**Ellwood Associates**	$1,481
52	**Discretionary Mgmt. Svcs.***	$1,451
53	**Spruceview Capital**	$1,158
54	**Sellwood Consulting**	$666
55	**LCG Associates**	$477
56	**Gifford Fong Associates**	$466
57	**CIBC Asset Mgmt.**	$155
58	**Morrison Fiduciary**	$62
59	**Bivium Capital**	$15

*As of Dec. 31.

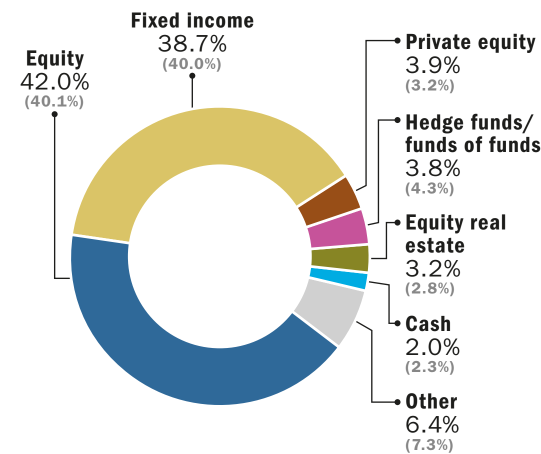
Growth of institutional outsourcing

Assets are in billions as of March 31.



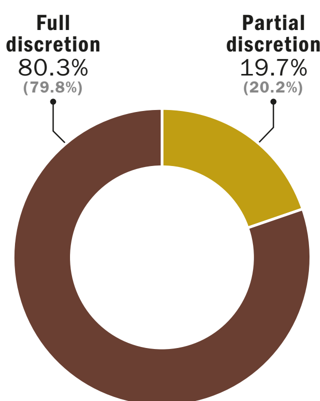
Outsourcing manager asset mix

Weighted average of the 50 largest managers of worldwide institutional outsourced assets as of March 31. Data in parentheses are previous year.



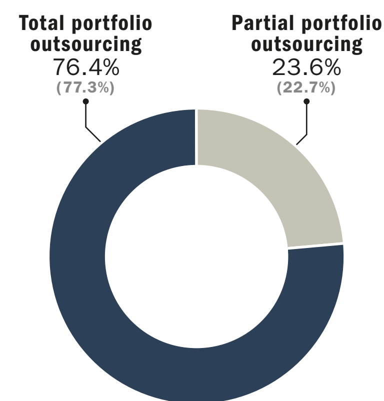
Outsourced assets by level of discretion

Weighted average of the 50 largest managers of worldwide institutional outsourced assets as of March 31. Data in parentheses are previous year.



Outsourced assets by portion outsourced

Weighted average of the 50 largest managers of worldwide institutional outsourced assets as of March 31. Data in parentheses are previous year.



The largest managers of total investment outsourcing assets

Worldwide institutional assets — discretionary and non-discretionary — in outsourced investment programs, in millions, as of March 31.

Rank	Manager	Total assets	Number of clients	Full/partial discretionary assets
1	Mercer	$366,986	1,539	$366,986
2	Cambridge Associates	$345,174	N/A	$36,409
3	Goldman Sachs Group	$207,701	542	$207,701
4	Aon	$202,809	539	$202,809
5	Russell Investments	$183,809	399	$183,809
6	State Street Global	$181,157	257	$181,157
7	Willis Towers Watson Invest.	$167,740	396	$167,740
8	BlackRock	$158,663	117	$158,663
9	Northern Trust	$138,915	479	$100,464
10	SEI Investments	$106,300	495	$106,300
11	Vanguard Group	$61,914	1,248	$61,914
12	Alan Biller and Associates	$61,254	33	$61,254
13	NEPC	$53,678	74	$53,678
14	River & Mercantile Solutions	$43,000	110	$43,000
15	CAPTRUST Financial	$42,920	1,130	$42,920
16	Aegon Asset Mgmt.	$39,683	149	$39,683
17	Bank of America	$35,373	5,000	$35,373
18	J.P. Morgan Asset Mgmt.	$33,941	78	$33,882
19	PNC Financial	$30,089	4,521	$30,089
20	Strategic Investment Group	$29,426	28	$29,426
21	Meketa Investment Group	$20,600	59	$20,600
22	Wilshire Advisors	$20,409	8,339	$20,409
23	Fidelity Institutional	$18,384	101	$18,384
24	SECOR Asset Mgmt.	$17,411	13	$17,411
25	PFM Asset Mgmt.	$17,207	234	$17,207

*As of Dec. 31

The largest managers of fully discretionary assets

Worldwide institutional outsourced assets under management, in millions, as of March 31.

Rank	Manager	Assets managed with full discretion	% of assets with full discretion	% of assets with partial discretion
1	Mercer	$352,307	96%	4%
2	Goldman Sachs Group	$207,701	100%	
3	Aon	$152,107	75%	25%
4	BlackRock	$138,037	87%	13%
5	State Street Global	$110,506	61%	39%
6	Willis Towers Watson Invest.	$100,644	60%	40%
7	Northern Trust	$100,464	100%	
8	Russell Investments	$95,581	52%	48%
9	Vanguard Group	$52,008	84%	16%
10	Alan Biller and Associates	$49,003	80%	20%
11	SEI Investments	$43,583	41%	59%
12	CAPTRUST Financial	$42,920	100%	
13	NEPC	$41,332	77%	23%
14	Bank of America	$35,019	99%	1%
15	River & Mercantile Solutions	$34,400	80%	20%
16	Aegon Asset Mgmt.	$34,088	86%	14%
17	J.P. Morgan Asset Mgmt.	$33,882	100%	
18	Strategic Investment Group	$29,426	100%	
19	PNC Financial	$28,868	96%	4%
20	Meketa Investment Group	$20,600	100%	
21	Wilshire Advisors	$20,409	100%	
22	PFM Asset Mgmt.	$17,207	100%	
23	Sterling Capital	$15,485	100%	
24	BNY Mellon	$14,474	87%	13%
25	Agility	$12,033	100%	

The largest managers of outsourced assets invested under ESG principles

Worldwide institutional outsourced assets under management, in millions, as of March 31.

Rank	Manager	Total assets	Mandates
1	Russell Investments	$183,809	$50,159
2	Aegon Asset Mgmt.	$39,565	$2,997
3	J.P. Morgan Asset Mgmt.	$33,882	
4	Wilshire Advisors	$20,409	$20,409
5	Fidelity Institutional	$18,384	
6	State Street Global	$15,757	$1,247
7	Global Endowment Mgmt.	$9,985	$2,374
8	Marquette Associates	$8,859	$233
9	Aetos Alternatives	$7,732	
10	Agility	$6,471	$6,471

The largest managers of outsourced assets invested with WMDV firms

Worldwide institutional outsourced assets under management, in millions, as of March 31.

Rank	Manager	Assets	Number of firms
1	Goldman Sachs Group	$22,700	39
2	Northern Trust	$4,200	
3	NEPC	$3,594	23
4	State Street Global	$3,436	6
5	Strategic Invest. Group	$2,843	24
6	Global Endowment Mgmt.	$1,945	39
7	Agility	$1,850	19
8	Marquette Associates	$1,533	11
9	Aetos Alternatives	$1,194	6
10	PFM Asset Mgmt.	$1,166	7

The largest managers of outsourced assets by type

U.S. institutional outsourced assets under management, in millions, as of March 31.

DB assets

Rank	Manager	Assets
1	Aon	$93,782
2	State Street Global	$74,552
3	Alan Biller and Assoc.	$57,422
4	Mercer	$51,802
5	Northern Trust	$39,929
6	Russell Investments	$33,679
7	BlackRock	$24,257
8	NEPC	$19,844
9	J.P. Morgan Asset Mgmt.	$19,813
10	Strategic Invest. Group	$16,032

DC assets

Rank	Manager	Assets
1	Mercer	$74,696
2	Aon	$44,266
3	State Street Global	$27,243
4	NEPC	$21,857
5	Wilshire Advisors	$13,375
6	Russell Investments	$11,531
7	Callan	$9,289
8	Northern Trust	$7,237
9	Pentegra Investors	$6,563
10	Conrad Siegel	$6,238

Foundation assets

Rank	Manager	Assets
1	Vanguard Group	$23,730
2	PNC Financial	$16,677
3	Northern Trust	$6,291
4	Global Endowment Mgmt.	$6,110
5	Agility	$5,209
6	Fund Evaluation Group*	$4,997
7	Fidelity Institutional	$4,226
8	Commonfund	$3,867
9	Russell Investments	$3,790
10	Aetos Alternatives	$3,756

Endowment assets

Rank	Manager	Assets
1	Vanguard Group	$10,791
2	Mercer	$9,930
3	Commonfund	$8,427
4	Agility	$6,590
5	State Street Global	$6,533
6	Strategic Invest. Group	$6,500
7	Hirtle, Callaghan	$6,200
8	TIFF Advisory Services	$5,215
9	BlackRock	$3,849
10	NEPC	$3,313

*As of Dec. 31

Customize

CONTINUED FROM PAGE 15

ized and is "the bridge between institutional whole-portfolio construction and … mass customization." BlackRock is partnering with financial intermediaries to provide thousands of customizable model portfolios built with robust risk management, something the firm could not do without the technical support of the firm's Aladdin risk management system and its wealth advisory platform, Mr. Marshall said.

He said the services that BlackRock's solutions unit provides separate into traditional OCIO management for institutional investors and model-based portfolios that wealth managers — as fiduciaries — implement on behalf of their clients. Advisers can select models using just BlackRock's iShares ETF funds, a blend of iShares and the firm's actively managed funds or open-architecture funds of external managers.

BlackRock is intently courting the wealth management segment and Mr. Marshall said he expects the firm's mass customization business to double the pace of its growth in this area over the next three years.

BlackRock doesn't break out the amount of assets wealth managers invest in the firm's funds on behalf of their clients. As of March 31, BlackRock managed a total of $9 trillion, while the solutions business had a total of $440 billion under management. Of that total, $158.7 billion was managed in worldwide institutional OCIO strategies managed with full or partial discretion, according to *P&I* data.

New York-based consultant Mercer has been building customized model portfolios for financial intermediaries around the world for more than 20 years based on risk tolerance, but the firm is keeping an eye on retail investor opportunities, said Rich Nuzum, president of the company's investments and retirement business, in an interview.

"OCIO managers may not use the term mass customization, but many are involved in serving the market. About half of our OCIO mandates are managed in customized accounts," Mr. Nuzum said.

On a smaller scale, Mr. Nuzum said Mercer recently has assisted financial intermediaries with creating investment program applications and in creating model portfolios in the huge retail markets in China and India.

"I think retail investment will become more important because of the growing need for savings. No countries I know of are raising tax-deductible limits on savings, especially for retirement," Mr. Nuzum said.

Mercer managed $367 billion in worldwide institutional OCIO strategies managed with full or partial discretion as of March 31, making it the largest OCIO manager in *P&I*'s annual survey of OCIO providers. ■

Larger

CONTINUED FROM PAGE 15

that the British Airways move into OCIO management "was the biggest thing to have happened to institutional (investment) in the U.K. in years."

Mr. Marshall expects more large companies with internal investment management teams to turn to OCIO as defined benefit plans mature and their funding ratios rise.

"It's complicated for internal defined benefit plan staff to handle lots of regulatory issues and constant readjustments to the defined benefit plan," Mr.

Outsource

CONTINUED FROM PAGE 1

In sharp contrast, the S&P 500 was down 6.9% the prior year, the AlphaNasdaq OCIO index was down 3.4% and the Bloomberg Barclays U.S. Aggregate Bond index was up 8.9%.

Timothy J. Braude, managing director and global head of OCIO at New York-based Goldman Sachs Group Inc., said in an interview that in 2020 "our OCIO clients experienced a very fast drawdown and a very fast recovery. Equities were up 50% to 60% and we and our clients had a very big year. 2020 was like a supercharged version of what we saw after the global financial crisis in 2008."

"The really rapid recovery gave investors a chance to step back and decide what they wanted to do about moving away from in-house portfolio management and into an OCIO arrangement," said Mr. Braude, adding that Goldman Sachs had "a very strong year" of organic OCIO growth in the year ended March 31.

22.7% growth

Total OCIO assets managed for worldwide institutions with full/partial discretion grew 22.7% over the year, compared with a rise of 8.4% in the year ended March 31, 2020, to the previous peak of $2.01 trillion.

Over the five-year period ended March 31, growth of worldwide OCIO AUM was up 90.5% compared with 54.6% for the five years ended March 31, 2020.

For periods ended March 31, worldwide OCIO assets managed with full discretion for institutional investors totaled $1.95 trillion, up 23.8% for the year and up 124.5% for the five-year period, *P&I* data showed.

After the outbreak of COVID-19 last year when work, home and social life became difficult, "there was recognition among asset owners that things had gotten too complicated for an internal investment committee to handle. On the corporate side, employees saddled with dealing with liabilities and other issues decided they weren't being paid to manage a defined benefit plan and started looking at OCIO options," said Steven F. Charlton, partner and director of consulting services at NEPC LLC, Boston, in an interview.

"Markets helped, but our growth was mostly organic," Mr. Charlton said.

NEPC had the second-highest growth rate among OCIO managers surveyed, up 90.9% to $53.7 billion in the year ended March 31, moving the firm to the 12th spot in *P&I*'s ranking from 18th.

Industry sources, including specialist OCIO search consultants, said they've seen a spike in interest from new OCIO investors or existing OCIO investors interested in manager upgrades.

"There's been a huge pick up in OCIO search activity. OCIO is gathering momentum," said Bradley H. Alford, founder and CEO of OCIO search firm Alpha Capital Management LLC, Atlanta, in an interview.

The new growth spurt in OCIO search and hiring activity in 2021 is in sharp contrast to March, April and May 2020 in the aftermath of the COVID-19 outbreak when many asset owners shelved their OCIO search plans to deal with other more pressing work issues, Mr. Alford said.

Later in 2020, the level of search activity became so frenetic that Mr. Alford had to stop accepting new OCIO searches and created a waiting list, noting that "the crush is easing a bit so we can take on more searches now."

Mr. Alford said the majority of Alpha Capital's OCIO searches in 2020 and so far in 2021 were for endowments and foundations.

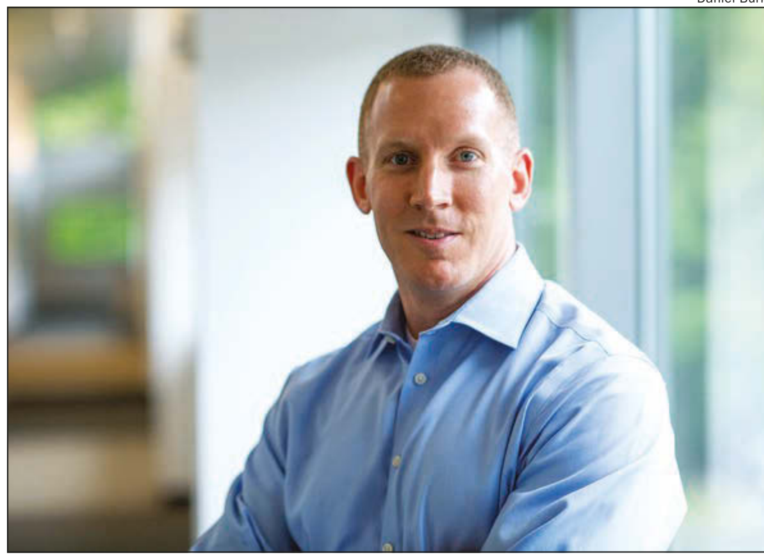
Mercer still at top

Mercer LLC, New York, retained its position as the largest manager of worldwide OCIO AUM with full/partial discretion for institutions, up 40.9% to $367 billion in the year ended March 31. Goldman Sachs Group rose to second place from seventh with assets of $207.7 billion, an increase of 31.6% in the year ended March 31.

In 2022, the top spot in *P&I*'s ranking of OCIO managers might be filled by a new manager if the merger between Aon PLC and Willis Towers Watson PLC comes to fruition.

Aon managed $202.8 billion and Willis Towers Watson managed $167.7 billion in worldwide OCIO assets managed with full/partial discretion for a total of $370.5 billion as of March 31, topping Mercer's total. Aon dropped to the third spot this year despite 17.8% growth in AUM. Willis Towers Watson ranked sixth, dropping two spots.

The London-based firms announced their plan to unite in March 2020 in an all-stock $30 billion deal with a combined equity value of $80 billion. The U.S. Justice Department sued to block the deal earlier this month due to concerns about stifling competition.



Daniel Burke

STRONG: Christopher B. Philips said Vanguard had a good 2020, once it got past June.

The Vanguard Group Inc., Malvern, Pa., had its best year ever for OCIO strategies in calendar year 2020, despite a challenging, slow search-and-hire environment between March and June, said Christopher B. Philips, principal and head of Vanguard Institutional Advisory Services, in an interview.

"It was barren. No one did anything during that period, but since the end of June last year, the momentum for OCIO strategies has been strong," Mr. Philips said, adding "we've been onboarding a lot of new clients, some of which are coming to Vanguard from other OCIOs managers." He said growth was pretty even across defined benefit plans, endowments and foundations.

Vanguard's OCIO AUM managed for worldwide institutions with full/partial discretion totaled $61.9 billion in the year ended March 31, up 40.6% over the previous year.

Among OCIO manager winners in *P&I's* ranking of 59 firms was Discretionary Management Services LLC, Merriam, Kan., which had the highest growth of 409.1% to $1.5 billion in worldwide assets managed with full/partial discretion in the year ended Dec. 31

The high growth rate was from the firm's addition of a new, large client for liability-driven portfolio management. Adam J. Strumpf, senior consultant, declined to name the client in an email.

Hirtle Callaghan & Co., West Conshohocken, Pa., experienced the largest decline — 20.9% to $10.6 billion — in worldwide institutional AUM.

The drop was the result of the firm's recategorization of some assets as non-institutional and the loss of a major client that returned to in-house portfolio management, said a spokeswoman who declined to name the client.

As in prior years, the U.S. OCIO market remains the most important for managers, with 66.1% of worldwide institutional AUM managed with full/partial discretion coming from U.S. clients as of March 31, a slight decline from 67.5% as of the same date a year earlier.

Assets managed with full/partial discretion for U.S. institutional clients rose 20.1% to $1.63 trillion for the year ended March 31 and 87.2% over the five-year period.

Equity returns help

Sources agreed that OCIO growth was strongly buoyed by very favorable performance, especially in equities.

Goldman Sachs' Mr. Braude and other OCIO managers said defined contribution plans had very strong asset growth in the year ended March 31, given the fact that many DC plan participants tend to be heavily invested in equity, and they greatly benefited from market returns in the year ended March 31.

Mr. Braude said Goldman Sachs saw strong client growth from defined benefit and defined contribution plans, endowments, foundations and health-care companies.

The U.S. defined contribution plan segment had the largest AUM growth in the year ended March 31, up 54.8% to $246.4 billion, according to *P&I* survey data. In contrast, OCIO growth for DC plans was only 1.8% over the prior year.

"Individuals in 401(k) plans did see their assets fall 20% to 30% if they were invested in a lot of equity in the early part of 2020 but gained it back later in the year and into 2021," Goldman Sachs' Mr. Braude said.

The growth in defined contribution plan OCIO adoption is still is in its early stages, but sources said the client segment is poised to boom. For DC plans an OCIO manager is a fiduciary manager.

One driver behind heightened interest in offering OCIO strategies for defined contribution plans is the shrinking pool of defined benefit plans, said Amanda Walters, principal, Casey Quirk, a practice of Deloitte Consulting LLP, New York.

"OCIO managers are looking for new revenue streams as defined benefit plans continue to decline," Ms. Walters said.

U.S. defined benefit plan OCIO assets were up 6.9% to $561.5 billion as of March 31, similar to growth of 7.5% the prior year.

Goldman Sachs' Mr. Braude said "in almost every circumstance when we're talking with a plan sponsor about closing their defined benefit plan, they also are asking about OCIO for their defined contribution plan."

Fiduciary responsibilities

In addition to the benefits of handing off the day-to-day management of defined contribution plans to an OCIO manager, plan sponsors also pass on their fiduciary responsibility for the plan to the manager, said Clinton S. Cary, Chicago-based managing director and head of U.S. delegated investment solutions at Willis Towers Watson, in an interview.

Given that 2020 was "a record year for defined contribution plan litigation, the threat is pushing DC sponsors to consider hiring a prudent expert like an OCIO manager that will assume the role of fiduciary of the plan," Mr. Cary said.

Mr. Cary said his firm and others also are eyeing the enticing opportunity to offer defined contribution plan OCIO services to pooled employer plans created by the 2019 SECURE Act once the Department of Labor provides further regulatory guidance for PEPs.

"PEPs will potentially be a big source of growth for the OCIO industry," Mr. Cary predicted.

Regarding another growing OCIO client segment, endowment and foundation OCIO investors "did better (in terms of performance) than pension funds because of their higher exposure to equity and alternatives," said C. Kane Brenan, CEO of endowment specialist TIFF Advisory Services Inc., Radnor, Pa., in an interview.

TIFF's endowment and foundation OCIO clients' performance was up 25% in the year ended March 31, he said.

TIFF's OCIO assets managed worldwide with full/partial discretion for institutions totaled $7.4 billion, up 12.5% over the year ended March 31.

Total AUM managed for U.S. foundations rose 35.3% to $105.9 billion in the year ended March 31, compared with growth of 32.2% a year earlier. Endowment assets were up 26.3% to $96.2 billion as of March 31, down from 54.9% growth the previous year.

As for the prospects for OCIO managers, "the industry is maturing, and with that comes the usual symptoms, including fee pressure, the beginning of possible consolidation among smaller players and firms closing or getting out of the OCIO business," said Andrew H. McCollum, head of investment management at Coalition Greenwich, Stamford, Conn., a division of data and analytics company CRISIL Ltd.

Mr. McCollum said in an interview he expects continued growth for OCIO firms at 7% to 8% annual levels, adding that OCIO is "one of the few areas of growth in the asset management industry."

But he cautioned "we likely will see shuffling of the deck chairs as investors consider manager changes and it's likely the industry will shrink. In a maturing industry, the number of players always goes down." ■

Marshall said.

BlackRock managed a total of $9 trillion, including $158.7 billion in OCIO assets managed with full/partial discretion for worldwide institutions as of March 31. BlackRock ranked seventh in *P&I's* OCIO ranking.

Last September, two European plans announced $1 billion-plus OCIO hires.

Civil Aviation Authority Pension Scheme, London, selected BlackRock to manage a £4 billion growth portfolio, replacing Russell Investments. Stichting Pensionfonds SNS REAAL, s-Hertogenbosch, Netherlands, hired NN Investment Partners to fiduciary management services for the €4.3 billion ($5.2 billion) pension fund.

TIFF Advisory Services Inc., Radnor, Pa., specializes in OCIO services for endowments and foundations and is seeing an uptick in interest from larger entities, said CEO C. Kane Brenan in an interview.

"Our pipeline is growing between three and five times faster than in 2020 and the size of mandates are rising, but we also continue to see interest from smaller endowments and foundations," he said.

CHANGING LANDSCAPE: Ryan Marshall expects to see more large companies turn to OCIO.

TIFF managed $7.4 billion with full/partial discretion in OCIO strategies for worldwide institutional clients as of March 31, up 12.5% from a year earlier.

To Mr. Brenan's point, Texas Tech University System, Lubbock, launched a search in April for an OCIO manager to run the university's $1.3 billion endowment for a four-year contract.

The successful candidate is expected to be selected in July.

— CHRISTINE WILLIAMSON

HIRINGS

WISCONSIN PUTS $1.4 BILLION TOWARD ALTS

State of Wisconsin Investment Board, Madison, disclosed private equity and real estate commitments during the first quarter totaling $1.38 billion.

Within private equity, the board, which manages $148.8 billion in assets, including the $132.6 billion Wisconsin Retirement System, committed $350 million to large-cap buyout fund **Hellman & Friedman** Capital Partners X; $200 million to PSG Encore Warehouse, managed by **Providence Strategic Growth Capital**; $100 million to **Atlas** Capital Resources IV, a buyout fund; and $75 million to **Sterling Group** Credit Fund II, a mezzanine fund.

The board also committed $60 million to **Charlesbank** Equity Fund X, a middle-market private equity fund, and $15 million to Charlesbank Equity Overage Fund X; $60 million to growth equity fund **JMI Equity** Fund X; $50 million each to **Activant Capital** IV, a growth equity fund, venture capital fund **Hedosophia** Partners IV and buyout fund **Percheron Capital** Fund I; $35 million to growth equity fund **Avenue Growth Partners** Fund I; and $25 million each to **Shamrock Capital** Debt Opportunities Fund I, a private debt fund, and growth equity fund **VMG Partners** V.

The board also made follow-on commitments of $20 million to Midwest-focused buyout fund Great Range Capital Fund II and $15 million to lower middle-market buyout fund Seaside Equity Partners Fund I. The board originally committed $35 million to each fund in 2020.

In real estate, the board committed $150 million to Hudson Single-Family Rental Fund, an open-end value-added real estate fund managed by **Hudson Advisors**, and $100 million to **Penwood** Select Industrial Fund VI, an industrial real estate fund.

■ **AbbVie Inc.**, North Chicago, Ill., hired **Empower Retirement** as record keeper of its 401(k) plan.

Empower replaced Alight Solutions as record keeper effective April 1, according to the company's 11-K filing with the SEC on June 21.

■ **Alameda County Employees' Retirement Association**, Oakland, Calif., committed up to $27 million to ABRY Senior Equity VI. The $10.4 billion pension fund's board approved the commitment to the mezzanine debt fund managed by **ABRY Partners** at its May 20 meeting, recently released meeting minutes show.

■ **Alaska Retirement Management Board**, Juneau, disclosed four alternative commitments totaling $165 million in a report from CIO Zachary A. Hanna. The board committed $50 million each to **Almanac Realty** Securities IX, a value-added real estate fund, and **KKR** Real Estate Partners Americas III, an opportunistic real estate fund; $40 million to growth equity fund **Insight Partners** XII and $25 million to buyout fund **Genstar Capital Partners** X, the report said. The board oversees the management of $41 billion in defined benefit and defined contribution plan assets.

■ **The Church of Scotland**, Edinburgh, hired **XPS Pensions Group** as investment and actuarial adviser for its pension funds, a spokeswoman confirmed. The Church of Scotland runs three defined benefit funds with £524 million ($739 million) in total assets. The previous investment adviser was Aon, with Hymans Robertson providing actuarial advice, the spokeswoman said.

■ **Cintas Corp.**, Cincinnati, added the **Fidelity** Advisor International Capital Appreciation Fund to the investment options lineup of its 401(k) plan.

The plan added the active international equity fund managed by Fidelity Investments effective Feb. 26, the company disclosed in its 11-K filing with the SEC. The fund replaced the Dodge & Cox International Stock Fund, which had $57 million in plan assets as of Dec. 31. The Cintas Partners' Plan had $2.7 billion in assets as of the same date.

■ **Citigroup Inc.**, New York, hired **Principal Global Investors** as an underlying manager for its small-cap U.S. equity fund investment option in its two 401(k) plans.

Principal replaced Los Angeles Capital Management and Vulcan Value Partners effective March 22, according to the bank's 11-K filings June 11 with the SEC. The filings also noted that **MFS Investment Management** was hired as an underlying manager of the non-U.S. small-cap equity fund in the plan, replacing Dodge & Cox, effective Sept. 30, 2020.

As of Dec. 31, the Citi Retirement Savings Plan had $17.9 billion in assets, and the Citi Retirement Savings Plan for Puerto Rico had $48 million in assets.

■ **Colorado Fire & Police Pension Association**, Greenwood Village, committed $68 million to six alternatives funds, said Scott Simon, CIO of the $6.5 billion pension fund, in an email.

The board approved a $20 million commitment to **Banner Ridge** Secondary Fund IV, a private credit fund, and an additional $5 million to an overflow co-investment vehicle. It also committed $18 million to **Systematic Growth** Fund III, a Nordic fund that acquires multiple microcap companies to build larger ones, and $15 million to **Wavecrest Growth Partners** II, a growth fund that invests in lower middle-market business-to-business technology companies.

Also, the board made commitments of $5 million each to **Foundation Capital** X and Foundation Capital Leadership Fund III, both venture capital funds.

■ **Delaware Public Employees' Retirement System**, Dover, approved four commitments in April totaling up to $101 million.

The $13.7 billion pension fund committed up to $35 million to **Accel** Growth Fund VI and up to $16 million to Accel XV, both capital venture funds; and up to $10 million to venture capital fund **Meritech Capital** Partners Franchise Fund. Also, the pension fund made a follow-on commitment of up $40 million to **Flagship Pioneering** Origination Fund VII after originally committing up to $50 million in February 2020.

HAVE SOME NEWS?

Please submit news of changes to David Schepp, news editor, at dschepp@pionline.com

■ **District of Columbia Retirement Board** made two new commitments totaling up to $125 million. The $10.3 billion pension fund committed up to $75 million to **Strategic Value** Special Situations Fund V and up to $50 million to **Carlyle** Realty Partners IX, an opportunistic real estate fund.

■ **Iowa Public Employees' Retirement System**, Des Moines, hired two private credit managers to run $100 million each for the $40.4 billion pension plan, confirmed spokeswoman Shawna Lode.

At its June 17 meeting, the board hired **ArrowMark Partners**, which specializes in specialty finance credit, and **HPS Investment Partners**, which focuses on real assets credit. IPERS also plans to invest an additional $100 million to its existing $250 million opportunistic private credit separately managed account run by KKR & Co.

■ **Kentucky Teachers' Retirement System**, Frankfort, committed up to $50 million to Apax Digital Fund II. The $24.5 billion pension fund's investment committee disclosed the commitment to the buyout fund managed by **Apax Partners** at its May 20 meeting, confirmed Robert B. Barnes, deputy executive secretary and general counsel, in an email.

■ **Los Angeles City Employees' Retirement System** committed up to $35 million to real estate fund **Wolff** Credit Partners III, according to a report to the board of the $22.4 billion pension plan.

■ **Los Angeles County Employees Retirement Association**'s board in closed session committed or invested $551 million to four alternative investment strategies, according to a report by the $69.6 billion Pasadena, Calif-based pension plan. LACERA committed $250 million to an open-end core infrastructure fund focusing on North America and C$200 million ($164 million) to an open-end infrastructure fund investing in Canada, both managed by **Axium Infrastructure**.

LACERA also invested $100 million in AM Asia Strategies Fund, a relative value, multistrategy hedge fund focused on Asia managed by **AM Squared**, and up to £26 million ($37 million) in a co-investment alongside **Silver Lake Partners**, a private equity firm investing in technology companies.

■ **Los Angeles Fire & Police Pensions** board in closed session committed a total of up to $240 million to five alternative investment funds, according to a report of actions taken at March and April board meetings.

The board committed up to $60 million to Insight Partners XII, a growth equity fund and up to $20 million to Insight Partners XII Buyout Annex Fund.

The board committed up to $50 million to **ABRY** Senior Equity VI, a mezzanine debt fund, and $40 million to Trive Capital Fund IV and $10 million to Trive Structured Capital Fund I, both managed by managed by **Trive Capital Management**, a buyout and growth equity firm. LAFPP also committed $60 million to **Hellman & Friedman** Capital Partners X, large-cap buyout fund.

■ **Macomb County Employees' Retirement System**, Mount Clemens, Mich., committed $12 million to **Centerbridge Partners** Real Estate Fund II. The $1 billion pension fund's board approved the commitment to the opportunistic real estate fund at its May 6 meeting.

■ **Maine Public Employees' Retirement System**, Augusta, approved a new commitment of up to $40 million to Technology Impact Growth Fund II.

The $17.6 billion pension fund's board approved the commitment to the venture capital fund managed by **Capricorn Investment Group** at its June 10 meeting, said CIO James Bennett.

■ **Marks & Spencer Pension Trust**, London, selected **Northern Trust** to provide ESG analytics to support the fund's oversight, governance and reporting, a spokeswoman confirmed. The £11 billion ($15.6 billion) pension fund will use ESG data and insights delivered by Northern Trust to help track specific environmental risks linked to its investments.

■ **Martin Marietta Materials Inc.**, Raleigh, N.C., hired **Fidelity Investments** as record keeper of its 401(k) plan. Fidelity replaced Wells Fargo as record keeper effective May 1, according to the company's 11-K filing with the SEC on June 23.

The filing also said in connection with the change, "investments were transferred from Wells Fargo-sponsored funds to Fidelity-sponsored funds with similar investment objectives." The filing did not disclose the names of the new investments.

As of Dec. 31, the Martin Marietta Savings and Investment Plan had $738 million in assets.

■ **Mediolanum International Funds Ltd.** hired three managers as subadvisers, allocating a total €510 million ($617 million), a spokesman confirmed. The manager will invest an initial €220 million in boutique **Pzena Investment Management**'s global value equity strategy. The firm takes a high-conviction approach to investing. Mediolanum will also allocate €220 million to **Mondrian Investment Partners**' value-oriented global equity strategy.

The firm will also partner with public infrastructure manager **Atlas Infrastructure Partners** and will seed the Atlas Global Infrastructure Fund with a €70 million commitment. The fund integrates ESG within its investment and portfolio construction processes and has a strong focus on climate change.

Mediolanum has more than €50 billion in AUM.

■ **University of Michigan**, Ann Arbor, committed and disclosed up to $35 million to two alternative funds from its $15.6 billion long-term endowment pool, according to documents from its board of regents meeting June 17.

University regents committed up to $25 million to Rubicon First Ascent, a real estate fund managed by **Rubicon Point Partners**, and $10 million to **Screendoor Partners**, a newly formed venture capital fund of funds based that invests primarily in seed-stage and early-stage funds that emphasize investments in companies founded by women and underrepresented minorities, according to board documents.

■ **Missouri Local Government Employees Retirement System**, Jefferson City, announced manager hires, commitments and investments totaling $214 million.

The $9.4 billion pension fund hired **Wells Fargo Asset Management** to run about $110 million in active domestic small-cap growth equities, said Megan Loehner, deputy CIO, in an email.

Funding comes from the termination of AMI Asset Management from a similar portfolio for performance reasons, Ms. Loehner said.

Also, the pension fund made a direct hedge fund investment of $64 million to Avenue Aviation Fund II Annex Fund, managed by **Avenue Capital Group**. The pension fund also committed $40 million to **Portfolio Advisors** Real Estate Fund VIII, a real estate fund of funds.

■ **New Castle County (Del.) Employees' Pension Program** made two new private credit commitments totaling $5 million.

The $516 million system's board approved commitments of $3 million to a private credit fund managed by **Crayhill Capital Management** and $2 million to **HarbourVest** Direct Lending Fund, recently released meeting minutes show.

■ **New Hampshire Retirement System Independent Investment Committee**, Concord, committed $25 million to **Industry Ventures** Partnership Holdings VI, a venture capital secondary fund, confirmed Marty Karlon, director of communications and legislative affairs for the $10.6 billion pension fund.

■ **Oklahoma Police Pension & Retirement System**, Oklahoma City, committed $25 million each to **Thompson Street Capital Partners** VI and Greenspring Secondaries Fund V, managed by **Greenspring Associates**.

The commitments to the two private equity funds were approved at a June 16 board meeting, said Ginger Sigler, executive director of the $3.2 billion pension plan, in an email.

■ **Pennsylvania Public School Employees' Retirement System**, Harrisburg, committed $80 million to Capstone Commonwealth Fund, a tail-risk mitigation fund managed by **Capstone Investment Advisors**.

The commitment was made at the $64.2 billion pension fund's June 11 board meeting. The board intends to commit to the fund on an annual basis. An additional $1 billion in commitments to five other alternatives funds were recommended at the meeting but weren't approved.

■ **Railways Pension Trustee Co.** appointed **Legal & General Investment Management** to provide a drawdown option for its defined contribution plan, a spokeswoman confirmed.

Participants enrolled in the Industry-Wide Defined Contribution Section, which is the DC section of the

HIRINGS

£32 billion ($45.1 billion) Railways Pension Scheme, London, who choose the drawdown option will now be enrolled into the Legal & General WorkSave Mastertrust at retirement. Assets will be invested through LGIM's Retirement Income Multi Asset Fund.

Participants will have their savings transferred into LGIM's master trust only when they want to access their benefits. They can still choose their own drawdown providers at retirement or other strategies. It is the first time that the trustees chose to offer a decumulation option to DC participants.

■ **St. Louis Public School Retirement System** made two new private credit commitments totaling $10 million. The $942 million pension fund's board approved commitments of $5 million each to **Bain Capital** Special Situations Asia II and **Crayhill** Principal Strategies Fund II at its April 19 meeting, said Susan Kane, executive director.

■ **San Jose (Calif.) Federated City Employees Retirement System** committed $5 million to **Innovation Endeavors** IV. The $2.7 billion pension fund's commitment to the venture capital fund was disclosed in materials for the pension fund's upcoming June 17 board meeting.

■ **Santa Barbara County (Calif.) Employees' Retirement System** committed $20 million to **Deerpath Capital** VI, a lower middle-market, senior direct lending fund, said Lauren Thompson, assistant CEO, investments and finance for the $3.8 billion pension fund.

■ **Seattle City Employees' Retirement System** committed up to $25 million to **Brookfield** Strategic Real Estate Partners IV.

The $3.5 billion pension fund's board approved the commitment to the global opportunistic real estate fund at its May 13 meeting, recently released meeting minutes show.

■ **Tacoma (Wash.) Employees' Retirement System** committed $50 million to **Pantheon** Global Infrastructure Fund IV.

The $2 billion pension fund's board approved the commitment to the fund of funds at its meeting June 10, said Timothy Allen, retirement director and chief investment officer, in an email.

■ **Texas County & District Retirement System**, Austin, committed a total of $264 million to four alternatives funds.

The $38.1 billion pension fund committed $125 million to FCP Realty Fund V, a value-added, closed-end fund managed by **Federal Capital Partners** that will invest in income-producing commercial and multifamily properties.

In venture capital, it committed $40 million to Lux Total Opportunities and $20 million to Lux Ventures VII, both managed by **Lux Capital**.

The plan also committed €65 million ($79 million) to to Victory European Real Estate Fund II (A), which will seek investments in Western Europe and is managed by **Victory Advisors**.

■ **Ventura County (Calif.) Employees' Retirement Association** made two new commitments totaling $50 million.

The $7.4 billion pension fund's board at its meeting June 21 approved commitments of $25 million each to **Cross Ocean** European Special Situations Fund IV and **HarbourVest** Direct Lending Fund, a private credit fund, said CIO Dan Gallagher in an email.

Separately, the board on June 21 approved the termination of Hexavest from a $101 million active international equity portfolio due to organizational changes and performance concerns.

Assets will be reallocated to Walter Scott & Partners, increasing the active international equity portfolio it currently manages for the pension fund to about $293 million.

■ **Vermont Pension Investment Committee**, Montpelier, committed $100 million to the Ares Pathfinder Core Fund on behalf of the $5.4 billion Vermont State Retirement Systems, according to Andy Cook, an investment analyst with the Vermont state treasurer's office, which administers the retirement systems.

The commitment to the private credit fund managed by Ares Management was approved at a committee meeting June 22.

■ **Washington State Investment Board**, Olympia, approved or disclosed up to $1.25 billion in new commitments at its meeting June 17, spokeswoman Tish Day said in an email.

In its innovation portfolio, the board was informed of a staff-delegated commitment of up to $400 million to **TPG** Rise Climate, a private equity fund that will make investments across buyout, growth equity and value-added infrastructure that have a positive climate impact.

Within private equity, commitments were made of up to $250 million to **Insight Partners** XII, and up to $200 million each to **Warburg Pincus** Financial Sector II and European buyout fund **Permira** Growth Opportunities II.

Within tangible assets, the board approved a commitment of up to $100 million each to **Orion** Mineral Royalty Fund, which will invest in royalty and streaming opportunities in industrial and agricultural minerals, and Orion Mine Finance Fund III, which looks to finance the construction of later-stage mine projects through a combination of debt, equity and production-linked investments.

The Washington State Investment Board oversees $171.5 billion in assets, including $134.4 billion in defined benefit plan assets.

■ **Wyoming State Loan and Investment Board**, Cheyenne, committed $60 million to middle-market buyout fund **Nautic Partners** X and its sidecar fund, Nautic Partners X-A, confirmed Patrick Fleming, chief investment officer, in an email.

The board oversees $23.4 billion in permanent funds.

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RFPs

CUSTODIAL SERVICES RFP

The Illinois State Board of Investment (ISBI) is soliciting proposals from custodial banks qualified to provide the Board with comprehensive domestic and international master trust/custodial services for ISBI's Defined Benefit Pension Plan.

Starting on June 28, 2021, the RFP can be found on the ISBI website:
www.isbinvestment.com/rfp.

Proposals must be submitted by 3:00 p.m. CST on July 26, 2021 to:
Illinois State Board of Investment / Meketa Investment Group, Inc.
Jansen Hein, Chief Operating Officer / Chief Financial Officer – jhein@isbinvestment.com
AND Alli Wallace Stone, Managing Principal, Consultant – astone@meketa.com
AND ISBI.Backstop@isbinvestment.com

Investment Consultant Services

The purpose of this request is to solicit proposals from firms interested in serving as an investment consultant to the City of Lakeland's Public Improvement Endowment Fund Board (the "Board"). The Board is seeking a firm to provide professional investment consulting services related to the Public Improvement Endowment Fund (the "Fund") which is intended to be a permanent fund of the City of Lakeland. Services will cover the review of investment guidelines, asset allocation, investment manager searches, the evaluation of investment manager performance, and other miscellaneous projects.

RFP Documents may be accessed by visiting our Website at http://www.lakelandgov.net/purchasing or by contacting the City of Lakeland Purchasing Division @ (863) 834-6780. Responses must be received no later than 2:00 PM local time, August 3, 2021.

REQUEST FOR PROPOSALS

Comprehensive Compensation Study

The Ohio Police & Fire Pension Fund (OP&F) is seeking proposals for a comprehensive compensation study from qualified firms.

The Request for Proposal will be released on or about June 25, 2021. RFP responses must be returned to OP&F offices by July 23, 2021 by 4 PM (EDT).

To obtain a copy of the RFP once released, visit www.op-f.org or contact:

Janeane N. Mayesky
Procurement Manager
Ohio Police & Fire Pension Fund
140 East Town Street
Columbus, Ohio 43215
rfpinquiries@op-f.org

Proposals must be received on or before the due date and time to be considered for evaluation.

Investment Consulting Services

The Oklahoma Tobacco Settlement Endowment Trust Fund Board of Investors is seeking proposals for an Investment Consultant to provide a broad range of advisory services in a fiduciary capacity including asset allocation studies, performance measurement and reporting, continuing manager due diligence, education opportunities for the Board, verbal and written reporting and manager searches for all asset classes. A copy of the request for proposal can be obtained at the Oklahoma State Treasurer's website at https://www.ok.gov/treasurer/documents/TSET-Consultant-RFP-2021.pdf.

Questions concerning the RFP and submission of the Acknowledgment of Receipt Form are due by 4:00 p.m. CST, June 30, 2021 and formal proposals must be submitted no later than 4:00 p.m. CST, July 16, 2021.

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Social bonds

CONTINUED FROM PAGE 2

But while pension fund executives said they are keen on boosting their social bond investments, they admit that unearthing opportunities is not straightforward. Investors, which are currently largely dependent on bond issuance by institutions such as the World Bank or more recently the European Commission, are on the lookout for more investment vehicles that can help them achieve scalable allocations as well as measure and report on the impact of these investments under the SFDR regulations. It is not an easy task because the social bond market is underdeveloped and it lacks frameworks such as the Task Force on Climate-related Financial Disclosures, which can aid investors in measuring impact of their investments and communicating them to plan participants, sources said.

Since these standards don't yet exist, the social bonds market hasn't reached a stage where impacts can be measured and communicated to plan participants, said Luba Nikulina, global head of research at Willis Towers Watson PLC in London. "When you issue a social bond, how do you make sure that commitments that you are making ... are genuinely improving social issues.... and (that) they don't have unintended consequences in certain geographies?" she said.

Lack of diversity

Though social bonds issuance exploded in the last year, part of the problem for investors is that the market is not diverse when it comes to issuers, said Kate Hollis, director, investments at Willis Towers Watson PLC in London.

The social bond market in terms of issuance was up last year, but more than half of that was issuance from supranational organizations, and issuance by government entities of China and France, she said. Climate Bond Initiative data for 2020 show that 47% of social bonds were issued by governments and government-backed entities and about 13% was issued by supranational organizations. About 37% was issued by corporations.

For more opportunities to develop, more corporations need to issue social bonds, Ms. Hollis said. Comparing the social bonds market to green bonds, she added that "for a long-time (the) green bond market was very heavily weighted to supranationals but now it's much more diverse." The green bonds market increased to just over $1 trillion in outstanding bonds in 2020 from $345 billion in 2017.

Investors that are looking to deploy money into social bonds this year agreed that issuer diversification is one of the obstacles that will determine if they can get to their targets.

For example, Lars Dreier Kristensen, director, hedging and treasury at ATP, Hilleroed, Denmark, said the 906.6 billion Danish kroner ($147.6 billion) pension fund plans to invest 50 billion Danish kroner across social bonds and sustainable bonds — including green bonds — this year. A specific allocation to social bonds was not disclosed. The allocation was created at the start of the year. But he said that the fund's ability to get to its target will depend on the market and the issuance.

Evelina Carborn

FLUSH: Magnus Billing is keen on seeing 'a pipeline of opportunities with scale.'

Mr. Kristensen said that the motivation for launching a social bonds allocation was similar to launching green bond investments a few years ago. "We saw a market in a rapid expansion. We are a large investor, so it was natural to dip our toes in it. We have seen exactly the same thing with social bonds. They have picked up quite a lot especially in 2020," he said. ATP's green bond allocation is 30 billion kroner.

Another challenge for Mr. Kristensen is selecting the projects to invest in as fund executives have to study how bond proceeds are distributed by social bond issuers. "We are looking quite a lot into ... a broad range of underlying categories on social issues. That could be anything from water (scarcity) to fighting extreme poverty. We have been very focused on having close dialogue, active ownership with issuers to be assured what is behind the underlying projects," he said.

"We are trying to mimic the strategy we had for green bonds with impact reporting with the issuers and transparency of underlying project data. It's important that we continue to that way. Our path is not to compromise on these things," he added.

Mr. Kristensen added that ATP manages its social bonds investments in-house. For the same issuer and the same credit quality, ATP expects the same return regardless of whether the bond is labeled as "social" or not, he added.

Meeting demand

Alecta Pensionsforsakring, Stockholm, which has a 18 billion Swedish kronor ($2.2 billion) allocation to social bonds, is also interested in expanding its portfolio to satisfy demand coming from its beneficiaries.

However, Alecta's CEO Magnus Billing thinks that social bond investment structures and projects available to institutional investors are not easily found.

"It's the supply side that is critical for us. We want to see a pipeline of opportunities with scale," he said in an email. "It must make a difference that we put capital into an investment vehicle. That has consequences on assets that are available to us for investing."

Mr. Billing said that Alecta has the same risk-adjusted return requirements for social bonds as for conventional bonds. Alecta will invest depending on the credit quality of the issuer and the liquidity risk.

"We are eager to find scalability to preserve efficiency. That (has) put some limitations for us to grow this portfolio," he added.

So far, Alecta, which has 900 billion Swedish kronor in assets, has focused on buying social bonds issued by development finance institutions such as the International Finance Corporation and the World Bank.

Mr. Billing said that Alecta has very few direct investments and wants to work with partners such as money managers and supranational organizations to invest in social bonds.

"We think that is a necessity for us going forward as we try to build this portfolio. We will not be able to have a knowledge of local conditions so would rely on partners with local knowledge and track record to address local risks," he said.

"We typically look for a framework that is aligned with (our) social bonds principles and that has gone through an external review by an independent party," Mr. Billing said.

Alecta then assesses the issuer from an ESG perspective before examining the specific bond, he said. Then executives evaluate the objective and what types of project or activities the bond is financing, he added.

In June, Alecta invested $100 million in a social bond aimed at promoting healthy living in emerging markets. The social bond, backed by the Swedish International Development Cooperation Agency, was issued by a company set up by impact investment manager responsAbility and will finance investments that improve access to health care and sanitation, enhance sustainable food production, provide access to finance and reduce pollution through renewable energy.

Building up

Investors in the Netherlands are also looking to build up social bond exposures. Oscar Jansen, expert portfolio manager credits at APG Asset Management, said the firm wants to grow its investments to contribute to the sustainable development goals.

APG is the in-house manager of €495.3 billion ($599.7 billion) ABP, Heerlen, the Netherlands.

"As a sustainable investor we have been active here and have been able to increase our allocation to social bonds and more than double the exposure compared to the previous year. We expect the market for social bonds to grow further which will allow us to increase our exposure as well," Mr. Jansen said. He declined to provide the size of the allocation.

APG evaluates issuers' use of proceeds using an internal framework. Currently, APG only invests in bonds issued by supranational organizations. Investments match the firm's risk and return criteria. ■

Emergency

CONTINUED FROM PAGE 4

take money out of their retirement plan because I don't think people will pay it back," she said.

While there are no known official surveys on the number of plans offering emergency savings options, industry observers say the number is negligible. None of Willis Towers Watson's plan sponsors clients offer emergency savings accounts, except "maybe one," Ms. Credico said.

Francis Investment Counsel's Ms. Moen also reports relatively few plan sponsors offering emergency savings programs but says that many are thinking about putting them in place. "I know that there are a number of employers that are currently evaluating implementing a program in some form," she said.

Dual strategies

Plan sponsors have two ways in which they can help employees set up an emergency savings fund: they can establish a savings mechanism as part of the retirement plan, or they can set it up separately. An in-plan emergency savings fund is typically financed with what's referred to as "traditional after-tax contributions," which are not to be confused with Roth after-tax contributions. Participants would in effect make after-tax contributions to their emergency savings funds after making either pre-tax or Roth after-tax contributions to their retirement accounts.

"It acts almost like a mini bank account or savings account within your larger 401(k) plan," Ms. Moen said.

After-tax contributions for emergencies are typically invested in money market or stable value funds offered within the plan, she added.

Traditional after-tax contributions, which predate Roth after-tax contributions, were common in plans in the past but fell out of use, according to Ms. Moen. Over time, plan sponsors removed the option from their plans and are now looking to reinstate it to facilitate emergency savings.

"It is a little bit we're coming full circle in terms of plan design," Ms. Moen said.

Probably the biggest advantage of an in-plan emergency savings option is that plan sponsors can continue working with their current plan providers. "It might be a little bit easier upfront to implement because you're working with your current record keeper or maybe just expanding the payroll file," Ms. Moen said.

An in-plan option, however, requires a strong employee education and communication program to support it. "It's really on the plan sponsor and/or consultant or providers working with the company to drive the education around how this will work," Ms. Moen said, adding that participants would otherwise not utilize the emergency savings option.

An even greater disadvantage is that the emergency savings after-tax contributions will impact a plan sponsor's discrimination testing. Unlike pre-tax and Roth contributions, which are subject to average deferral percentage testing, after-tax contributions are subject to average contribution percentage testing, a fact that throws many plan sponsors off.

"You do want to do your homework on the front end in terms of the fiddle work with your required compliance testing annually," Ms. Moen said.

'New frontier'

To avoid the issue of discrimination testing, plan sponsors may opt for an out-of-plan emergency savings program with an outside vendor via their record keeper, an arrangement that Ms. Moen describes as "the new frontier" in emergency savings. While a stand-alone program, separate from the 401(k) plan, would be more cumbersome to set up and require separate payroll files and employee logins, it would not have the "dark cloud" of discrimination testing "hanging over it," Ms. Moen said.

Stand-alone programs, however, are in their infancy, with plan sponsors waiting for record keepers to roll them out, Ms. Moen said. So far, only a handful of plan sponsors have implemented outside emergency savings programs because record keepers have not yet built the "solution" or partnership, she added.

Once record keepers start rolling out programs in the third or fourth quarter as they indicated to her this spring, Ms. Moen anticipates an uptick in the number of plan sponsors making out-of-plan savings options available.

"We probably will see much more uptake in that as an option going forward as a lot more of these solutions are rolled out," she said. ■

Money Management

JPMAM strikes deal to acquire timberland manager Campbell

By JAMES COMTOIS

J.P. Morgan Asset Management agreed to acquire Portland, Ore.-based timberland and natural resource manager Campbell Global from BrightSphere Investment Group, according to news releases on June 21.

Terms of the deal, which is expected to close in the third quarter, were not disclosed.

JPMAM will acquire BrightSphere's 75% ownership interest in Campbell Global, and the 25% ownership interest held by Campbell management.

Campbell, which manages $5.3 billion in assets and has more than 150 employees, will keep its name, brand, leadership and Portland office.

"This acquisition expands our alternatives offering and demonstrates our desire to integrate sustainability into our business in a way that's meaningful," JPMAM CEO George Gatch said in a news release.

Campbell Global is the sixth boutique manager that BrightSphere has sold in the past 12 months, leaving quant manager Acadian Asset Management as BrightSphere's sole business at the completion of all deals. ■

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Japan

CONTINUED FROM PAGE 3

But struggles remain. "For a market that has historically had quite some challenges filling these roles — and I've spoken to a lot of management teams over the years who say they are looking and have not found the right person — we now are going to see more of these issues and we are concerned about that," said Kei Okamura, Tokyo-based director of Japan investment stewardship at Neuberger Berman Group LLC. "We're concerned companies might take a mechanical approach" and appoint directors without the necessary experience. "If those people get picked, what you essentially have is a board of yes men and women," he said. Neuberger Berman has $402 billion in assets under management.

Beware of tokenism

Tokenism is a "risk we have to be aware of — the concept (of adding more women, for example) to boards was so new, nobody really knew what we wanted," said Rob Hardy, corporate governance director at Capital Group Cos. in London, which has $2.38 trillion in AUM.

And as much as Yoko Sakai, director of research and Japan analyst for $80 billion manager Harding Loevner LP, "would like to have women promoted, I'm a little skeptical of meaningful change happening overnight. If a company came up with multiple women on the board … I'd be suspicious that they had increased gender diversity so quickly."

She said one reason for suspicion is that for the University of Tokyo's 2021 spring admission, only 21% of students are women.

The need to be aware of tokenism on Japanese boards comes at a time when many money managers have been upping their corporate governance guidelines to include, in some cases, at least one woman on boards.

T. Rowe Price Group Inc. formalized its gender diversity policy with a central tenet of voting against any Japanese company with no female board representation. The firm has $1.59 trillion in AUM.

"Progress is slow, but inroads are being made in this area — Japanese companies without a single female director or female officer, for example, shrank from 55% in 2019 to 50% in 2020," Archibald Ciganer, Tokyo-based portfolio manager of the Japan equity strategy at T. Rowe, said in an email. The fund had €1.9 billion ($2.3 billion) in assets as of May 31.

J.P. Morgan, Goldman Sachs

J.P. Morgan Asset Management will require at least one female board member starting the next fiscal year, while Goldman Sachs Asset Management took its policy of having a woman on every corporate board global last year and will vote against any company that doesn't have female representation.

DON'T MOVE TOO FAST: Yoko Sakai worries about tokensim if change happens too quickly.

"We were in a situation where, until recently, about half the companies didn't have a woman on the board in Japan," said Chris Vilburn, head of Asia stewardship at GSAM in Tokyo. In the year after the policy came on a global basis, starting in April 2020, the firm voted against 521 companies on the basis of a lack of board diversity — "that's quite a lot of companies in Japan only."

While Mr. Vilburn hasn't yet seen the numbers for 2021, "we have seen more companies adding their first woman," with some adding multiple women. The firm has $2.2 trillion in AUM.

The independence of board members is also an area managers are approaching with caution, with numbers showing improvement: In 2020, 36% of board members were independent, up from 27% in 2019, T. Rowe's Mr. Ciganer said.

"It's hard enough to find male independent directors in Japan because lifetime employment in one company and only knowing that company means it's hard to find qualified people who can act as independent directors on another business," said Harding Loevner's Ms. Sakai, who is based in Bridgewater, N.J.

The reality of smaller talent pools, requirements for increased diversity and independence of board members has led managers to caution against overboarding, too.

"We don't want to see directors sitting on too many" boards, Capital Group's Mr. Hardy said. The firm is aware that suitably qualified female board members may be overstretched due to high demand for their expertise on different boards, "with them being pulled in different directions. We try to be pragmatic about overboarding with more focused discussions about board time commitment and how skills evolve."

Neuberger Berman executives are already seeing overboarding as an "acute issue for some female" directors who are highly sought, Mr. Okamura said. Executives have come across women in Japan with five external director roles, owning their own business and being advisers to public institutions, too.

And Harding Loevner's Ms. Sakai is "struggling with (the fact that) now, a lot of these independent directors are overextended — they're sitting on multiple boards because, once they're on one board, hundreds of companies come to ask them to join theirs. We want them to be effective, but if a company nominates an independent director who is overextended, do I vote against them? It's a very tricky situation."

When a crisis does flare up at a company, the time demands on such individuals are huge — "which is why we take overboarding into account," Mr. Okamura said.

Overblown issue

GSAM's Mr. Vilburn does not think there's an issue with diverse or independent talent in Japan, per se. "There's a lot of highly qualified people, women, external directors for those roles. I do hear anecdotally from companies saying it is a very tight market for the directors they want to hire, placement agencies saying that's highly in demand right now, but we're not really seeing places where we think directors have been overboarded or we have concerns about them on the board. Companies may need to look beyond the narrow pool of who they know in their industry — that's the point," he said.

However, the concept of overboarding was also recognized within the revised codes, with a requirement for a skills matrix to map out board directors' expertise.

"It's quite appropriate, and especially in terms of skill set of the candidates, (that) companies are now having to disclose what are the skills that these diverse candidates have," said Shizuko Ohmi, Tokyo-based head of investment stewardship, Japan at J.P. Morgan Asset Management, which has $2.8 trillion in AUM. "In discussions with these companies, they explain it is a good exercise for them to think about what is the strategy for future growth — digital, IT innovations, ESG," she said. Skill matrixes also makes engagement between companies and money managers easier. "We can talk about why they chose this kind of candidate, based on what they think about the skill," Ms. Okhi said.

Harding Loevner's Ms. Sakai and Neuberger's Mr. Okamura agreed the skills matrix will be helpful, helping executives to see the expertise that women in particular add and helping to address other concerns in terms of potential skill gaps. ■

EBSA

CONTINUED FROM PAGE 2

and very commonly understood principles," Mr. Khawar said.

But Matthew H. Hawes, a partner with law firm Morgan, Lewis & Bockius, is surprised the EBSA is asking plan fiduciaries about their cybersecurity practices this soon after issuing the guidance.

"Plan fiduciaries are still digesting this and they're still looking at their existing practices, procedures and policies, and evaluating them in light of the new guidance and making determinations whether there need to be any changes," Mr. Hawes said in a phone interview.

"To have a deep and fulsome audit initiative coming before fiduciaries have almost an opportunity to fully digest and address their own policies, procedures, guidelines and practices is really surprising and even a little bit unfair," he said. "But from the DOL's perspective, they might say, 'None of guidance should be all that surprising, we've always believed that this in the scope with-

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Regulation

U.K. DC plans get OK for illiquid fee smoothing

Goal is to help DC plans invest in illiquids and not breach annual charge cap

By SOPHIE BAKER

Performance fees incurred by U.K. defined contribution plans investing in illiquid assets may be smoothed over five years starting Oct. 1, the government said.

Following a consultation with the industry on encouraging investment in illiquid assets, the government said it will move ahead with a proposal to allow for performance fees associated with private equity, infrastructure and other alternatives to be accounted for over a five-year period, rather than one year. The aim is to help DC plans to invest in illiquids without breaching an annual charge cap of 0.75% of plan assets.

The government received 35 responses to a March consultation on the proposal, with the overwhelming majority of respondents supporting the objective of giving DC plan trustees flexibility to incorporate performance fees within the charge cap.

Some respondents proposed that performance fees should be completely or partially removed from the charge cap. "However, Government believes that carried interest is a cost and should be subject to a cap in the same way as other investment costs," the government said in a document outlining responses and its decision. "Some respondents suggested that the Government should therefore not cap a cost that is only incurred when members receive higher net returns. We have concluded that the charge cap and inclusion of performance fees within it protect members from high fees that do not improve value for money."

CLARITY: Joe Dabrowski says the PLSA supports the move but welcomes more guidance.

The move was, in general, welcomed by the Pensions and Lifetime Savings Association. "We support the government's intent to facilitate DC schemes' investment in the widest range of assets including, illiquid assets, private markets and other alternative investments, and maintenance of the charge cap," said Joe Dabrowski, deputy director, policy, in an emailed comment. "We therefore believe proposed calculation adjustments for performance fees and additional guidance on costs excluded from the charge cap while holding physical assets will provide clarity for schemes and aid those schemes which wish to add illiquid asset investment into their portfolio but have felt inhibited by current rules."

However, the PLSA warned that other factors such as the cost and transparency of illiquid investments, as well as the competitive and consolidating nature of the U.K. DC market, means the changes "will only have a minor impact on asset allocation and there is unlikely to be a wholesale switch into illiquid investments."

Also on June 21, the Department for Work and Pensions launched a new consultation paper on further consolidation in the DC market.

"We know from other countries such as Australia that scale is the biggest driver in achieving value for money for savers and ultimately better retirement outcomes," said Guy Opperman, minister for Pensions and Financial Inclusion, in an introduction to the paper. "Further consolidation will drive better outcomes for members through better governance and greater investment in illiquid assets."

The government in September launched a consultation on new regulations to require trustees with plans smaller than £100 million ($141 million) in assets to justify their continued existence via a newly introduced "value for members" assessment. The assessment comes into force in the fall.

That assessment marked "phase one and now we turn to phase two which will be looking to drive consolidation further and faster," Mr. Opperman said.

There were 1,560 DC plans in the U.K. in 2020 and 36 authorized multiemployer DC plans known as master trusts, which have more than £52.7 billion. The number of DC plans has been falling by between 8% and 10% each year, with the government predicting that there will be about 1,000 DC plans operating in five years' time.

The latest consultation will look at barriers and opportunities to greater consolidation of retirement plans with between £100 million and £5 billion in assets. The government wants to know in particular about incentives for consolidation among these plans.

Responses to the latest consultation should be sent by email to the DWP by July 30. The government aims to publish its own response later this year. ■

Tracking

CONTINUED FROM PAGE 2

Public Employees' Retirement System, Sacramento. Staff would like to switch to what they call an "actionable tracking error" approach.

According to proposed investment policy changes shared with the investment committee, CalPERS would remove a requirement that the asset allocation for its entire portfolio be managed within a target forecast annual tracking error compared to its benchmark of 0.75%. The asset allocation limit of 0.75% implies that during any one-year period, there will be less than a 5% probability that the active asset allocation return will fall less than 1.2%, the existing investment policy said.

The asset allocation requirement in the existing investment policy captures the asset class deviations in CalPERS' total fund relative to its asset allocation targets, said CalPERS spokeswoman Megan White in an email.

"Any underweights or overweights in any asset class relative to the policy benchmark create tracking error because our portfolio weighting differs from the policy weighting," she said.

Arnold B. Phillips, interim deputy CIO, said in an email that the separate, annual asset allocation tracking-error limit of 0.75% wouldn't be needed because the actionable tracking-error calculation for the total portfolio would take that into account.

"The asset allocation impact on tracking error comes from the deviations between the total fund portfolio and the policy benchmarks for the asset classes defined in the strategic asset allocation," Mr. Phillips said. "The asset allocation contribution is just one piece of the calculation of both total, and actionable tracking error."

If adopted, the total fund would instead have an active risk target "consistent with forecast tracking error" of up to 1% relative to its benchmark. The proposed methodology would remove alternative investments from its calculation as well as eliminate annual tracking-error limits.

Different definitions

During its June 14 meeting, Mr. Phillips told the investment committee that other asset owners use actionable tracking error but define it differently by "ignoring the allocations within various asset classes." CalPERS would include those allocations, he said.

IT'S IN THERE: Arnold B. Phillips said the actionable tracking error would take into account asset allocations.

CalPERS is not alone in considering how it measures risk and the value of tracking error across its portfolio.

CalSTRS, for example, modified its approach in 2020. In March of that year, the board adopted a tracking-error approach for risk budgeting in its global equity portfolio.

Its global equity portfolio is now managed within an annualized forecast active risk range of 10 to 50 basis points, according to the policy. The $299.8 billion California State Teachers' Retirement System, West Sacramento, had formerly had static targets for active and passive strategies, a report to the board at its March 2020 meeting said.

Those targets were that 30% of CalSTRS' U.S. equity portfolio was to be actively managed, 50% of non-U.S. developed equity portfolio was to be actively managed and 100% of the emerging markets equity portfolio was to be actively managed.

The board adopted the active risk budget to allow staff to move equity investments between passive and active management.

In July, the CalSTRS board is expected to decide whether to adopt active risk budgets for its fixed income as well as its sustainable investment and stewardship strategies portfolio, said CalSTRS spokesman Thomas Lawrence in an email.

The active risk budget gives staff more flexibility to invest in the "best opportunities across global markets, regardless of the region," the report to the CalSTRS board said.

Closely related concepts

During an educational session on tracking error in November, Michael Krimm, an investment director at CalPERS, explained that tracking error and risk budgeting are closely related concepts.

The idea of risk budgeting is basically the question "of how you … budget or allocate risk," Mr. Krimm said. "That includes questions like, what should our tracking error limit be?"

He added that the topic of risk budgets is "really a broader topic about plan investment strategy, more broadly."

Rather than adopt a risk budget like CalSTRS, per se, when it comes to active strategies, staff has been given discretion by the CalPERS board to deviate from the policy portfolio, CalPERS' Ms. White said.

"The question is how this discretion should be managed/allocated," she said. "We have a continuous CIO-level process of planning, assessment, allocating and monitoring of investment risk across the plan."

It is more of an ongoing activity than risk budgeting, she said.

"We are hesitant on the term 'budgeting' as allocating risk is a lot more nuanced than just allocating tracking error," Ms. White said. ■

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in the fiduciary's responsibilities.'"

In speaking with clients, Mr. Hawes said that some of EBSA's cybersecurity inquiries focus more on gathering information, while others ask for documents and much greater detail as outlined in the guidance.

"We don't know which direction or what the flavor of these audits is going to be as the initiative continues to evolve," Mr. Hawes said. "DOL audit initiatives may start out in one spot, but they can evolve over time."

Mr. Hawes said plan fiduciaries should review the guidance and understand the Labor Department's expectations to see whether they need to make any changes to their cybersecurity practices and policies.

Looking ahead, EBSA intends to issue further cybersecurity guidance, Mr. Khawar said. "One of the things that we're going to continue to do outreach about and monitor as we continue along this path is where else guidance might be helpful," he said. "I think this is going to be an enforcement priority for the foreseeable future. It is a critically important issue." ■

NEW LEADER: David T. Veal was named the next CIO at the Texas Employees Retirement System.

Pension Funds

Texas state plan gets its next CIO from Austin system

David T. Veal was selected to be the next chief investment officer of the Texas Employees Retirement System, Austin, the system announced.

Mr. Veal will join the $34 billion pension fund in August following the retirement of CIO Charles Thomas "Tom" Tull, who in 2020 had announced plans to retire this summer.

Mr. Tull joined the pension fund in 2009 as director of strategic research. He was named CIO of ERS in 2012.

Mr. Veal has been CIO of the $3.2 billion Austin (Texas) City Employees' Retirement System for the past five years. Prior to that role, he held leadership roles with the $179.9 billion Texas Teacher Retirement System, Austin, where he was the director of strategic partnerships and research; and ERS, where he was the global strategist and portfolio manager for emerging markets.

Regarding Mr. Veal's replacement, Christopher Hanson, executive director of the Austin employees' fund, said in an email that "our investment team will continue to (manage) the day-to-day operations of the investment program. Right now, we're focused on the transition of David's departure and in due time we'll have more to share about our plans to replace (him) in the role."

Mr Veal was unavailable for an interview.

Executive search firm Korn Ferry assisted Texas ERS with the search.

Mr. Veal is a graduate of Auburn University and holds an MBA from the University of Michigan. Mr. Veal also served for six years as a U.S. Navy officer, where he was twice decorated with the Navy Commendation Medal. ■

AT DEADLINE

Ind. adds $1.4B to fund

Trustees of the Indiana Public Retirement System approved a $1.4 billion increase in the allocation to Bridgewater Associates All-Weather II risk-parity fund from the system's $36.7 billion defined benefit plan, during a June 25 meeting.

The additional allocation brings the total invested in the risk-parity fund to $3.7 billion to meet a new 10% target allocation of the system's defined benefit plan.

Trustees approved INPRS' staff recommendation to increase the system's investment in the Bridgewater fund to up to 15%. Prior to the increase, Bridgewater's All Weather II fund represented 6.2% of total DB plan assets.

Funding for the increase in the Bridgewater is to come from the change in the system's risk-parity allocation to 20% from 12% that trustees approved at their May 7 meeting, INPRS spokesman Dmitri Kyser said in an email.

Increasing the allocation to the All Weather fund will decrease the blended management fee for INPRS from 0.261% to 0.257%, system staff said in the report.

Bridgewater's assets under management in four funds for INPRS will total $4.8 billion or 13% of defined benefit assets from 9.2% prior to the change in the All Weather fund, making the firm INPRS' largest DB plan manager, followed by Pacific Investment Management Co. (11.3%) and RhumbLine Advisers (11.1%).

OCERS allocates $150M

The board of the Orange County Employees Retirement System committed $150 million to two alternative investment funds.

Pension officials on June 23 committed $75 million each to EQT Infrastructure V and Crayhill Principal Strategies Fund II.

Separately, OCERS approved a private equity pacing plan in which it would commit $275 million in 2021 and $700 million in 2022, as it seeks to move its portfolio toward a 13% private equity target allocation. OCERS' plan calls for it to make commitments of $20 million to $100 million each to 10 to 13 funds or strategies.

BlackRock audits conduct

The world's largest money manager is overhauling the way it handles employee concerns about workplace misconduct, following an external review and accusations of inappropriate or intolerant behavior.

BlackRock's CEO Laurence D. "Larry" Fink outlined in a memo to all staff its new action plan to ensure every employee feels "welcomed, included, and safe."

Mr. Fink said he found it "disturbing" to read stories earlier this year of "inappropriate or intolerant behavior recounted by former employees." Some accusers also raised concerns about the way such incidents were handled by BlackRock.

At the time, BlackRock said it would take action to improve the situation, including creating a dedicated investigations team, and then retained law firm Paul, Weiss to conduct a review and provide recommendations.

As a result of the review, BlackRock is taking action in four areas, Mr. Fink said: providing more support for employees with concerns, providing more clarity around processes to investigate misconduct, reinforcing accountability and continuing to invest in its human resources team and processes.

BlackRock has $9.01 trillion in assets under management.

Maine IRA bill now law

Maine Gov. Janet Mills signed into law legislation that creates an automatic IRA for workers whose employers don't offer retirement plans.

Starting April 1, 2023, employers with 25 or more eligible employees must offer the program in which participants will make contributions by payroll deduction.

The law requires employers to offer the auto IRA, but they aren't considered fiduciaries and aren't required to contribute money to participants' retirement accounts.

Participant contributions will be made to a Roth IRA. Initially, covered employees must contribute 5% of pay, but they can drop out of the program at any time and they may contribute more or less, the law says.

Ohio fund assigns $100M

The $17.4 billion Ohio School Employees Retirement System committed $100 million to Carlyle Credit Opportunities Fund II.

The pension fund's board approved the commitment to the direct lending fund managed by Carlyle Group at its June 17 meeting, a spokeswoman said in an email.

As of April 30, the actual allocation to global private credit was 1.8%; the target is 3%.

Sonoco unloads liabilities

Sonoco Products Co. entered into an agreement to purchase group annuity contracts from Athene Annuity & Life Co. and Athene Annuity & Life Assurance Co. of New York to transfer about $900 million in U.S. pension plan liabilities.

The company's June 17 agreement with the Athene Holdings subsidiaries will transfer about 8,300 participants in the Sonoco Products Pension Plan for Inactive Participants, according to its June 23 8-K filing with the SEC.

As of Dec. 31, 2019, the Sonoco Pension Plan for Inactive Participants had $1.3 billion in assets, according to the plan's most recent Form 5500 filing.

Fiduciary

CONTINUED FROM PAGE 1

place, including in the ways advisers are compensated that can subject advisers to harmful conflicts of interest," the department said.

"There are a lot of career people at the DOL still working there and it's not clear to me that their views would have necessarily changed just because of the 5th Circuit's action," said Joshua A. Lichtenstein, an ERISA and benefits partner in New York who heads Ropes & Gray LLP's ERISA fiduciary practice. "So I am expecting to see a pretty fulsome rewrite of the definition of who is a fiduciary."

In 2018, a three-judge panel at the 5th U.S. Circuit Court of Appeals in New Orleans vacated a Labor Department rule, commonly known as the fiduciary rule, in a 2-1 decision because it said the department exceeded its legal authority.

The fiduciary rule, finalized in 2016 under the Obama administration, broadened the definition of when a person or entity was taking on fiduciary responsibilities and replaced the five-part test used to determine whether an investment professional or financial institution is a fiduciary.

The Labor Department last year under the Trump administration reinstated the five-part test and in the preamble to an investment-advice exemption that took effect in February, said the five-part test applies to rollover recommendations.

"I think there's concern in the department and in general that people go from retirement plans to IRAs — a retail environment where there are higher costs, less protections from conflicts of interest and there isn't a fiduciary standard," said Fred Reish, a partner in Faegre Drinker Biddle & Reath LLP's benefits and executive compensation practice group. "It's not so much about a person 30 years old leaving their job and putting money in an IRA, this is really about baby boomers retiring in a defined contribution world."

Another challenge?

As it currently stands, the five-part test makes it "too easy" for financial firms to avoid fiduciary obligations under ERISA, said Barbara Roper, Pueblo, Colo.-based director of investor protection at the Consumer Federation of America.

She would like the Labor Department to ensure all rollover recommendations are considered fiduciary investment advice and close the "loopholes" in the fiduciary definition.

CINCH IT UP: Barbara Roper would like to see 'loopholes' closed in the fiduciary definition.

But much like with the 2016 rule, Ms. Roper expects the Labor Department to face a legal challenge if it broadens the fiduciary definition.

The Employee Benefits Security Administration takes "judicial decisions into account when pursuing rule-making," A Labor Department spokesman said in an email. "The 5th Circuit's decision will shape our thinking on approaches to these issues."

Jason Berkowitz, chief legal and regulatory affairs officer at the Insured Retirement Institute in Washington, expects the Labor Department to expand the definition to include rollovers. "We don't feel that that's an appropriate move, but we'll reserve judgment until we see exactly what they propose, and we'll take a thoughtful and measured approach to reviewing it and analyzing it and providing feedback through the regulatory process," he said.

It's far too soon to say whether the rule will face a legal challenge, Mr. Berkowitz added, but "given the stakes here all options do have to remain on the table and we'll wait and see how things play out."

The previous case decided in 2018 was filed by business groups such as the U.S. Chamber of Commerce, the Financial Services Institute, the Financial Services Roundtable, the Insured Retirement Institute and the Securities Industry and Financial Markets Association.

Stakeholders are also watching how the SEC, with Gary Gensler at the helm since April, will enforce its best-interest standard, known as Reg BI.

The best-interest standard was the centerpiece of a package designed to address the obligations of broker-dealers and investment advisers when they provide recommendations or investment advice to retail investors. It was adopted in June 2019 and went into effect June 2020. Shortly before the rule package took effect last year, the SEC said initial examinations would be less onerous and focus on "good faith" efforts because of the disruptions caused by the COVID-19 pandemic. In January, it announced the scope of its examinations would expand.

During testimony before the House Financial Services Committee in May, Mr. Gensler said it's important that "investors actually have brokers take their best inter-

Tirschwell

CONTINUED FROM PAGE 3

interview with *Pensions & Investments*. "The big name brand firms won't let anybody take their track records. Pension funds have got to be willing to take that risk" to invest with new firms owned by women and minority investment executives who cannot present an audited track record from their prior firms for this reason, said Ms. Tirschwell, a former managing director of TCW's distressed debt strategy group.

If institutional investors continue to invest mostly with the big, brand-name alternative investment firms, she said, they will have more correlated returns. That's not necessarily a problem until they are not all doing well.

In Ms. Tirschwell's lawsuit, filed in January 2018 against TCW, Jess Ravich, her former direct supervisor at TCW, and David Lippman, TCW president and CEO, Ms. Tirschwell alleges she was fired in December 2017 after she had lodged a sexual harassment complaint with TCW against Mr. Ravich, then group managing director and head of alternative products.

The complaint, filed in state court in New York, seeks at least $30 million and punitive damages for unlawfully terminating her, breaching her employment contract and violating the New York City Human Rights Law, which bars discrimination on the basis of gender.

TCW, with $253 billion in assets under management as of March 31, has maintained in court filings and in written statements that Ms. Tirschwell's allegations are "without merit."

"Ms. Tirschwell was properly terminated as a result of repeated compliance violations," TCW said in a statement to P&I in May 2021.

"TCW is proud of its inclusive culture and has a zero tolerance policy for any form of predatory behavior," TCW said in a statement soon after Ms. Tirschwell filed her complaint. TCW added that with regard to Ms. Tirschwell's allegations, the firm had engaged an independent investigative firm to examine the allegations and determine the facts.

In 2018, TCW wound down the roughly $50 million distressed debt fund that Ms. Tirschwell had run, according to two letters to investors at the time. Her departure triggered a key-person event that gave investors the right to request a redemption.

A trial date on the lawsuit has yet to be scheduled.

A calling card

A track record is an investment professional's calling card. It reflects the particular investments the person was involved with and the results of the investment, industry insiders say. A verifiable track record is indispensable for anyone wishing to start a money management firm, industry executives say.

"It is important that new (general partners) have a track record that is clearly attributable to them," said Allan Majotra, managing partner, Americas, Europe, the Middle East and Asia, at placement agent 5Capital Funds Placement LLC, speaking generally about emerging managers, in an email. "What is most important for us is (the team's) track record or a very high conviction from our side that they will be a first-quartile fund in the future," he said.

But isolating a single person's track record can be difficult. There is often more than one portfolio manager on a fund and a single investment can involve multiple teams at an alternative investment firm, industry insiders say. Sometimes, very senior executives such as investment committee members, can negotiate the use of their track records when they are hired or when they leave, but more junior executives may have to leave without one. What's more, junior as well as senior executives could be barred for a limited time, typically up to a year, from reaching out to limited partners with whom they have relationships.

None of the 52 female executives surveyed for a 2020 Investec report said they would start their own private equity firm if they left their current employer, down from 2.3% in the prior year report. By comparison, 15% of men said that they would start their own firm, the report stated.

The report noted that starting a private equity firm is the quickest route to the leadership ranks of as-

est at heart and that's what we're going to do through examination and enforcement, (and) guidance to ensure that that rule is fully complied with as written."

Because the rule doesn't have specific definitions of terms like "best interest" and "conflicts of interest," the SEC's interpretation will be what's enforced, Mr. Reish said. A Democratic-led SEC is likely to focus more on the cost differentials investors pay and the different commission incentives financial professionals receive for giving advice than a Republican-led SEC would have, Mr. Reish added.

"Republicans still want to protect investors — it's just, 'Where is the line drawn and how heavily should financial intuitions be regulated?'" he said.

Ms. Roper said Reg BI is "too weak and undefined to deliver the promised protections of a true best-interest standard backed by meaningful restrictions on harmful incentives," in an April letter to Mr. Gensler. She would like the SEC to clarify "best interest" and state how it will determine whether firms are adequately mitigating conflicts of interest.

Others, like Mark Quinn, San Diego-based director of regulatory affairs at Cetera Financial Group, Inc., a network of independently managed broker-dealers, said Reg BI defines best interest well enough so firms know what's expected.

All the while, through the first year of Reg BI, there haven't been any major compliance issues, stakeholders said.

Brynn Rail, a partner in the asset management group at Ropes & Gray, does not expect the new administration to make any major changes to Reg BI. It wasn't included in the SEC's semiannual regulatory agenda released June 11. ■

ERISA

CONTINUED FROM PAGE 6

The Supreme Court's ruling, written by Justice Brett Kavanaugh, has provoked debate among ERISA attorneys because of several passages about DC vs. DB. "Of decisive importance to this case, the plaintiffs' retirement plan is a defined-benefit plan, not a defined-contribution plan," said the second paragraph in the Supreme Court's June 1, 2020, opinion.

DB participants receive fixed monthly payments that "do not fluctuate with the value of the plan or because of the plan fiduciaries' good or bad investment decisions," he wrote. By contrast, in DC plans, "the retirees' benefits are typically tied to the value of their accounts, and the benefits can turn on the plan fiduciaries' particular investment decisions."

Mr. Kavanaugh concluded that "the plaintiffs have no concrete stake in this dispute" and no standing to sue, adding that "winning or losing this suit would not change the plaintiffs' monthly pension benefits."

'Major overreach'

Plaintiffs' attorneys said the court's opinion was clear. "Efforts to extend the scope of Thole to DC plans are a major overreach and have generally been dead on arrival," said Kai Richter, who represents participants in ERISA cases and is a partner at Nichols Kaster PLLP, Minneapolis, in an email.

Ms. Ross, the sponsor's attorney, uses "reach" in a different way. District court judges who rejected the Thole defense by DC plans "really reached far to justify their position," she said.

However, many U.S. district court judges have ruled that the distinctions between DC and DB plans are clear.

For example, a federal court judge in Detroit on March 31 rejected a motion to dismiss in the case of Davis et al vs. Magna International of America Inc. et al., in which participants alleged a series of ERISA violations related to alleged poor-performing investments and plan costs. "This court declines to extend Thole to defined contribution plans," wrote U.S. District Court Judge Nancy G. Edmunds.

Plaintiffs have standing to sue "because they allege actual injury to their own plan accounts and they allege injury in fact that is causally related to the conduct they challenge on behalf of the plan," she wrote.

A federal judge in Charlotte, N.C., rebuffed a Thole-based request on March 31 for dismissal in the case of Jones et al. vs. Coca-Cola Consolidated Inc. et al. in which current and former participants alleged ERISA violations for record-keeping fees and high target-date costs in the company's 401(k) plan.

For DC plans "where future benefit payments would be affected by the outcome of a lawsuit, courts are more likely to find an injury-in-fact sufficient" to permit standing to sue, wrote U.S. District Court Judge Frank D. Whitney. The plaintiffs "have properly alleged they suffered an injury-in-fact."

A federal court judge in Newark, N.J., rejected a motion to dismiss on April 13 in the case of McGowan et al. vs. Barnabas Health Inc. et al., in which retirement plan participants alleged ERISA violations tied to high-cost investments and allowing high record-keeping fees.

Writing that defendants' arguments stretched Thole "too far," U.S. District Court Judge Kevin McNulty wrote that the Supreme Court "explicitly distinguished the case of a defined contribution plan like this one here."

Mr. Whitney pointed out that "courts post-Thole have generally rejected the argument that a plaintiff's ERISA challenge must be confined to the individual funds in which he or she invested."

'You will need several appeals court decisions to nail this down. ERISA is full of questions.'

COHEN MILSTEIN SELLERS & TOLL'S **KAREN HANDORF**

A rare victory

Sponsors' attorneys point to a rare DC-plan victory in which a federal District Court judge cited the Thole decision and other Supreme Court and federal court rulings in granting summary judgment in August 2020 against plaintiffs in the case of Ortiz et al. vs American Airlines Inc. et al.

Two months earlier, U.S. District Judge John McBryde, Fort Worth, Texas, informed both parties about the Thole decision and asked plaintiffs to provide "their theories of damages" caused by the defendants.

"Their alleged injuries are at best speculative, not concrete," he wrote. "Plaintiffs have not established standing to pursue the claim regarding an alternative capital preservation option."

Attorneys also point to another case, now before the 3rd Circuit Court of Appeals, Philadelphia, that could elevate the debate over whether the Thole decision applies to DC plans.

On May 18, the court agreed to hear an appeal by Universal Health Services Inc. challenging class certification granted by a Philadelphia federal court judge in an ERISA complaint filed by participants in the company's 401(k) plan.

In October 2020, U.S. District Court Judge Mark Kearney rejected Universal's motion for partial dismissal in the case based on its claim that participants lacked standing to sue regarding plan menu options in which they didn't invest.

"The Supreme Court in Thole and the Constitution require plaintiffs demonstrate a concrete stake in the outcome of each of their claims — the employees have done so here," he wrote.

The judge also granted class certification for some 60,000 participants. Universal's appeals court petition challenged class certification because the three plaintiffs invested only in seven of 37 menu options cited in their original complaint. ■

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set management, but women aren't considering it because successfully forming a new private equity firm "requires a significant track record and a certain level of seniority that women are still less likely to have achieved."

According to Preqin's Women in Alternative Assets 2021 report, even though 20.3% of employees at private equity and venture capital firms were women at the end of 2020, few female executives have advanced to senior levels. Only 12.2% of senior private equity executives and 13.7% of senior venture capital executives were women, Preqin data showed.

Earlier ambitions

Before joining TCW Group, Ms. Tirschwell said that she and former Paulson & Co. executive Dan Kamensky had planned to open their own distressed debt firm, with Ms. Tirschwell as the lead partner.

Her former employer, Davidson Kempner Capital Management LP, with whom she said she had a good relationship as a managing director in distressed debt, does not permit portability of track records for anyone, Ms. Tirschwell said.

A chance meeting in early 2015 with a Davidson Kempner investor, Aurora Investment Management LLC, a hedge fund-of-fund manager, eventually led Aurora to agree to provide her with seed capital for her new firm, she said.

"One of the only reasons why I was able to raise $175 million from Aurora was because Aurora had been an investor in Davidson Kempner. They knew about me as an investor and … Davidson Kempner talked to Aurora on my behalf."

While Davidson Kempner provided a reference check for her, it did not help Ms. Tirschwell secure seed funding for her firm, said spokesman Steve Bruce, in an email. The firm declined to comment on its practices regarding the use of track records.

Her plans to form a firm, however, went awry.

Aurora pulled its investment, Ms. Tirschwell said. In April 2016, Aurora went out of business. When the seed money evaporated, Mr. Kamensky dropped out of the venture, she said.

According to court documents, Ms. Tirschwell was introduced to TCW by Mr. Ravich. She joined TCW in May 2016, initially as an independent contractor in which she would both manage and own a 51% interest in a new distressed investing fund, according to the trial court's summary of the facts. TCW would own 49%, court documents show.

TCW executives said she would have access to TCW's "world class" back office, marketing and legal services as well as other support, she said.

She became a TCW employee in the summer of 2016 with Mr. Ravich as her supervisor. According to court documents, Ms. Tirschwell and Mr. Ravich have known each other since 1994. They dated in 2012 for approximately a year and remained friendly, court documents show.

But the lack of a track record also hurt her attempts to raise capital for her new fund when she was at TCW, she said.

Salespeople refused to pitch her fund, even to asset owners with whom she already had a long-standing relationship from her 11 years at Davidson Kempner because she couldn't produce a track record, she said. At the same time, even before she joined TCW as an employee she failed to qualify for pension funds' emerging manager programs because TCW was backing her, which made the distressed fund more difficult to raise, Ms. Tirschwell said.

TCW directed requests for comment to documents it has filed in the lawsuit.

In an affidavit in support of Mr. Lippman and TCW's 2019 motion for summary judgment, Joseph Carieri, TCW's Los Angeles-based head of marketing, said he told a group of executives including Mr. Lippman at the outset of Ms. Tirschwell's relationship with TCW that marketing her fund wouldn't be easy.

"I expressed … my belief that it would be very difficult to market an investment product without a track record or an established team," he said. Mr. Carieri also said it was "untrue" that TCW failed to support Ms. Tirschwell's efforts to market the distressed fund.

Ms. Tirschwell made more than 140 presentations and/or meetings with prospective clients and was accompanied by another TCW employee "for almost all these presentations," he said.

TCW also marketed the fund to friends and family in late 2016, and between March 1, 2017, and November 2017, TCW made about 400 solicitations to 100 potential investors, Mr. Carieri said.

In May, an appellate court in New York reinstated a retaliation claim Ms. Tirschwell had brought against TCW and Mr. Lippman and her request for punitive damages. The appellate court also ruled that the lower court had properly let stand Ms. Tirschwell's gender discrimination claim against Mr. Ravich, based "on plaintiff's claims that Ravich used his supervisory position to pressure her into having sex with him and withdrew support for her at work after she stopped responding to his sexual advances."

Next steps

Since she left TCW in 2017, Ms. Tirschwell said that she has not worked managing money. Potential employers tell her that they think she is a talented investor but do not want to hire her until her case against TCW is over, she said.

This year, Ms. Tirschwell ran as a Republican candidate for mayor of New York but dropped out in April because she had not collected enough signatures to get on the ballot.

She also is a managing director of turnaround advisory firm Quest Turnaround Advisors, and chief financial officer of Foundation House, an addiction treatment services provider founded to honor the life of Peter Kellerman, a partner at Cantor Fitzgerald who was killed on 9/11.

Looking back

Ms. Tirschwell said the distressed investment industry was more diverse when she started working in money management close to 30 years ago. The business was left to "the nerds," she said.

"It attracted the misfits of Wall Street. People who couldn't get jobs being white-shoe investment bankers," Ms. Tirschwell said. "Because it was a misfit crowd, it attracted a disproportionate number of women."

The smaller number of women manager executives today will not change until asset owners insist that managers promote more women and minorities into senior investment roles and support those who strike out on their own with larger emerging manager programs, Ms. Tirschwell said. They should also loosen up on the track record requirement, she said.

Another obstacle for anyone attempting to start a new alternative investment firm is most asset owners' emerging manager programs are too small, even though more pension funds are starting programs than ever, she said.

"How do you compete with managers with funds with hundreds of millions or billions of dollars?" she said. "Pension funds talk about diversity and … helping women and minorities and giving them a leg up … but if you look at the amount of money they allocate to those emerging manager programs, (it is) quite small." ■

Brexit

CONTINUED FROM PAGE 1

markets in March.

"It's harder to assess the Brexit impact (five years on) because of COVID," John Roe, London-based head of multiasset funds at Legal & General Investment Management, said in emailed comment. "The virus, and associated fiscal stimulus, has caused so much volatility that underlying trends are harder to pick out." LGIM runs £1.3 trillion ($1.8 trillion) in assets under management.

Mr. Roe thinks underlying trends will be difficult to differentiate throughout this year because the U.K.'s COVID-19 vaccination program is several months ahead of other European countries and no fiscal tightening is expected until 2022 at the earliest.

Meanwhile, the U.K. and EU are still thrashing out final details on some areas of financial services, while money managers continue to develop their operations in the U.K. and on the continent as they work around the loss of passporting rights.

Other executives agreed that COVID-19 has muddied the impact of Brexit.

"Brexit is important longer-term in terms of how the U.K. functions, but it's still less important than COVID(-related) reopening," said April LaRusse, London-based head of fixed income at the £707.7 billion Insight Investment. "Fortunately — or not fortunately — we haven't been focused on Brexit more or less since the vote happened, and we (then) calmed down." When the U.K. left in early 2020, it was a bit of a "non-event, mainly because we had something bigger to worry about" that quarter — COVID-19. "I'm sure when we are less focused on COVID there will be more focus on Brexit," Ms. LaRusse said.

Insight executives are looking at data from sources including the U.K.'s Office for National Statistics' report on the effects of the exit and the coronavirus on U.K. trade in goods, published in May. "I was trying to look for some useful data (in the publication) — anything we can see that suggests the U.K. is hurting because of Brexit. The data is going to be messy because of COVID. But you can definitely see in the data … a pretty material decline" in total trade in goods with EU countries, down 23.1% between the first quarter of 2018 and the first quarter of 2021. Stockpiling of inventories in the fourth quarter of 2019 — immediately ahead of the official exit — also would have "muddied the numbers somewhat," Ms. LaRusse said.

SHIFTING GEARS: April LaRusse expects there to be more focus on Brexit once COVID-19 concerns have calmed down.

Stark differences

The difference in market effects due to COVID-19 and Brexit are stark. At the depths of the COVID-19 crisis for markets — March 23, 2020 — the S&P 500 index dropped almost 35% and the FTSE All-Share index fell 35% through that date.

However, on June 24, 2016, the FTSE All-Share index fell by 3.8% vs. the previous day. The pound sterling bore the brunt of the impact, falling more than 10% against the dollar in early trading on the morning the referendum result was revealed, and continued to be volatile over the coming years, dropping at points to around $1.20. However, year-to-date June 24, 2016, the FTSE All-Share index gained 2.8%.

And during market trading on Feb. 3, 2020 — the first day after the U.K.'s official exit — the FTSE All-Share index fell slightly and the pound dropped to $1.30 from $1.32 on Jan. 31.

Compared with COVID-19, "Brexit is more of a slow burn," Trevor Greetham, head of multiasset at Royal London Asset Management in London, said in an email. The firm has £147 billion in assets under management. However, "a renewed bout of sterling weakness could occur if the government refuses to abide by the Northern Ireland Protocol and we end up, in effect, in a 'no deal' situation," Mr. Greetham warned, referring to part of the Brexit deal that keeps the border between Northern Ireland and the Republic of Ireland open.

LGIM's Mr. Roe added: "The good news is that any cliff-risk from Brexit has been avoided and the issues that now need to be dealt with, like encouraging business investment to stimulate productivity, are slower-moving issues so the risk of a crisis has dwindled dramatically."

That was a large part of the firm's decision to take a long position on the pound sterling in November, "as we could see that funnel of doubt rapidly shrinking, which in turn made (the pound) attractive as it was both unloved and cheap on various valuation metrics," he said.

'Kind of dismissed it'

The reality is that markets have "kind of dismissed it," said Andrew Jackson, head of fixed income at the international business of Federated Hermes Inc. in London, speaking on a virtual panel event on June 17. While Brexit is relevant, it may be "bad, may be good, but only marginally bad or good," he said. Corporations got ahead of the official exit, managed risks and communicated them well, Mr. Jackson added. Federated Hermes has $625 billion in assets under management.

But concerns do remain, including the impact of "rules of origin" — the need to demonstrate that goods originated in the U.K. or EU before they can be distributed — on supply chains and "the uncertainty over the treatment of parts of financial services. The risk is that a combination of the rules, frictions and ongoing uncertainty undermine business investment," Mr. Roe said.

Insight's Ms. LaRusse said there is some evidence of delays in terms of bringing goods into the U.K., which is affecting costs. She also cited the rules of origin protocol as a risk. "There is some evidence to suggest there are frictions in the system, which are leading to less trade, and potentially that hurts the U.K. economy," she said.

And Hermes' Mr. Jackson added that supply chains will continue to be disrupted. "But I think in some ways, the last year has been a good time to have Brexit occur — there's been a global pandemic and some of those supply-chain effects have not been noticed," and markets have gathered "all the bad news together in one big chunk," he added.

And any further bad news that causes another drop in sterling would actually boost domestic stock prices because about 70% of FTSE 100-listed company revenues are earned overseas, RLAM's Mr. Greetham said.

Christian Kopf, Frankfurt-based head of fixed income and FX at Union Investment Institutional GmbH, thinks Brexit "is largely priced into financial markets by now. In fact, we believe that after lagging global equities for many years, U.K. equities now offer good potential, as valuations look attractive."

That is especially true for mid-cap stocks — those listed on the FTSE 250 index — "which tend to perform well in economic recoveries. But even large caps now look cheap by historical standards," he said in an email. Union has €386 billion ($467.4 billion) in assets under management.

U.K. financial firms voting with their feet

Brexit also has affected the U.K. workforce, with some companies choosing to relocate staff to the continent.

Data from EY's financial services Brexit tracker show that 43% of the U.K.'s largest financial services firms have moved or plan to move some U.K. operations and/or staff to Europe, with the total number of relocations at almost 7,600 as of May.

As of April, almost 450 U.K. financial services firms — including 182 investment managers — had relocated to other European cities or expanded European presence due to Brexit, according to analysis by U.K. think tank New Financial.

It may also be "more difficult (for the U.K.) to attract multinational companies, but it's too early to tell to what extent the U.K.'s position as a business location will suffer," said Christian Kopf, Frankfurt-based head of fixed income and FX at Union Investment Institutional GmbH.

— SOPHIE BAKER

Endowment

CONTINUED FROM PAGE 1

select group of top Japanese research universities in the form of matching funds for money they raise for their own endowments, said Takahiro Ueyama, a Tokyo-based executive member of the Cabinet Office's Council for Science, Technology and Innovation — chaired by Prime Minister Yoshihide Suga.

Legislative changes due to be enacted after the next regular session of Japan's parliament starts in January will lay the legal groundwork for national universities in Japan to set up endowment funds with the operational capabilities of their counterparts in the U.S. and Europe, Mr. Ueyama said. The past 10 to 15 years have seen a number of universities set up funds to accept donations but they've operated under considerable constraints and made only marginal contributions to their sponsors' finances, he said.

The University Endowment Fund plan will effectively apply, on a broader scale, the formula Singapore's government has used to accelerate the buildup of endowment funds at institutions of higher learning there, led by the National University of Singapore, Mr. Ueyama said. With the help of a government policy giving universities in Singapore $1.50 for every $1 they raise from donations or other sources, NUS currently boasts an endowment of $4.8 billion — by coincidence, roughly the size of Harvard University's endowment in 1990 when Jack Meyer took the helm at Harvard Management Co. When Mr. Meyer departed 15 years later, investment gains and continued donations had swelled the endowment's size to $25.9 billion. As of its June 30, 2020, fiscal-year close, Harvard's endowment remained the world's largest with $41.9 billion.

"That is the scheme," Mr. Ueyama said. More than just showering universities with money, the program is designed to help them restructure their finances, leaving recipients better positioned to sustain the high level of research needed to go toe-to-toe with top ranked universities around the world, he added.

Final selections have yet to be made and the government is hammering out requirements — including targets for growing their endowments — that universities will have to accept to tap into the giant endowment fund's investment gains. Current plans call for anywhere from four to eight top research institutions to be chosen, Mr. Ueyama said.

Within five to 10 years, those leading Japanese research universities should be able to boast their own multibillion-dollar endowment funds, Mr. Ueyama said.

For now, Mr. Ito said, work on launching the University Endowment Fund is continuing, with a government experts committee looking to reach conclusions by the end of July on the fund's payout ratio and its risk tolerance levels — including the composition of the fund's reference portfolio.

The government committee won't decide the fund's asset allocation mix, Mr. Ito said. Instead, the investment management team fielded by the Japan Science and Technology Agency will begin addressing that topic in August, with investments set to commence in March.

A major step toward the start of investment operations was reached recently with the June 1 selection of Masakazu Kita — managing executive officer with Norinchukin Bank, one of Japan's most experienced investors in alternative asset classes — as the endowment fund's chief investment officer, Mr. Ito noted.

One Tokyo-based investment consultant, who declined to be named, welcomed the selection of the veteran alternatives investor as a valuable injection of expertise in a process which, he contended, has so far been dominated by people with scant experience in managing portfolios.

Meanwhile, the reference portfolios of top overseas institutional investors the government's experts committee has spoken with or studied in recent months all boast equity allocations considerably higher than the 50% target of Japan's highest profile asset owner, the ¥177.7 trillion Government Pension Investment Fund, Tokyo. For example, the reference portfolio for Singapore's GIC Corp., with estimated assets of more than $400 billion, has a 65% equity weighting while two big sovereign wealth funds — the $77 billion, Juneau-based Alaska Permanent Fund and the NZ$58.6 billion ($41.7 billion) Auckland-based New Zealand Superannuation Fund — both have equity allocation targets of 80%.

A model fund

Against the backdrop of an asset owner universe in Japan that remains heavily invested in domestic bonds despite rock-bottom yields, Mr. Ito said the University Endowment Fund could have an impact on the country's broader investment culture by showing the feasibility of higher allocations to equities, global assets and alternatives, including private equity and real estate.

The University Endowment Fund will hopefully be "a model for Japanese universities' endowments," although each university will be free to follow its own investment strategy, Mr. Ito said.

Government documents detailing the reasons for the fund's creation said growing financial constraints resulting from Japan's aging demographic profile and a steady decline in government outlays for national universities have seen the ranks of young researchers and doctoral students in Japan dropping rapidly over the past 10 years, along with the country's share of top research papers published globally.

The financial weakness of Japanese universities is a major reason for that decline, reflecting — in part — their failure to tap into support from alumni and other private sources of funding, Mr. Ueyama said. Government documents show that even top private universities in Japan, such as Tokyo-based Keio University, report endowment-like funds of well under $1 billion, while the country's biggest public universities, such as University of Tokyo, have little more than $100 million.

Against that backdrop, Japan's ¥10 trillion University Endowment Fund gambit offers the potential to make a significant difference while highlighting the urgency of doing so, Mr. Ueyama suggested.

"I have been deeply involved with the reform of the national university system in our country" and while much has been done so far the huge amount of money being marshaled for the current program certainly makes it stand out, Mr. Ueyama said. So it's going to be a turning point for Japan's universities to evolve into world-class universities, he said, adding "it is probably the last chance for us."

CHANGES AHEAD

Minnesota State Board of Investment, St. Paul, is searching for one or more consultants for five-year contracts. An RFP posted on the board's website June 14 said board members are scheduled to select consultant(s) at its Aug. 25 meeting. The contracts of the SBI's existing consultants, Aon Investments and Meketa Investment Group, expire in 2022, said Mansco Perry III, executive director and CIO, in an email. He added that the existing consultants may rebid. Proposals are due by noon CDT July 8. As of March 31, SBI managed a total of $116.9 billion, including $84.5 billion in combined assets for defined benefit plans and $9.7 billion in participant-directed plans, with the balance managed in other state funds.

HAVE SOME NEWS?

Please submit news of changes to David Schepp, news editor, at **dschepp@pionline.com**

Milwaukee County Employees' Retirement System is searching for private credit managers to which the system plans to commit $30 million to $65 million. The $1.8 billion pension fund will only consider evergreen commingled strategies, according to an RFP on the county's website. According to its most recent available investment report, as of April 30, the pension fund did not have any allocation to private credit. Proposals are due at 5 p.m. CDT on July 16. Investment consultant Marquette Associates is assisting.

Oklahoma Tobacco Settlement Endowment Trust Fund, Oklahoma City, is searching for an investment consultant. The $1.5 billion endowment trust fund's board of investors issued an RFP because current consultant NEPC's contract will expire Nov. 30, said Lisa Murray, chief investment officer. The RFP is available on the state treasurer's website. Proposals are due at 4 p.m. CDT on July 16.

Danvers (Mass.) Contributory Retirement System is searching for a U.S. small-cap value equities manager to run $9 million on behalf of the $143 million defined benefit plan. Graystone Consulting, the retirement system's investment consultant, is assisting with the search. The strategy will be benchmarked against the Russell 2000 Value index. Only separate accounts will be accepted. The RFP is available from Susan M. Little, retirement assistant, via email at slittle@danversma.gov. Proposals are due by 4 p.m. EDT July 20.

Vancouver, Wash., is searching for an investment consultant for its $133 million 457 plan and $2 million 401(a) plan. The city is seeking a consultant to provide ongoing evaluation of the plans' investment options, provide ongoing overall reviews of the plan and assist the city with any RFP processes for record keepers or investment manager, an RFP on the city's procurement website shows. . The city is currently undergoing a transition to ICMA-RC as its single record keeper for the plans to be completed in September. The RFP is available on the city's procurement website. Registration is required. Proposals are due at 3 p.m. PDT on July 21.

Cape May County, Cape May Court House, N.J., is searching for a third-party administrator for its $17 million 457 plan. The county issued an RFP for a firm to provide record keeping and administrative services, said Peter T. Scott, senior fiduciary consultant, retirement services, at Centurion, a Marsh & McLennan Agency company, which is assisting with the search. Current administrator AIG Retirement Services is invited to rebid, he said. The RFP is available on the county's procurement website. Registration is required. Proposals are due at 2 p.m. CDT on July 28.

California Department of Human Resources, Sacramento, will launch a search in July for a third-party administrator for the state's $18.5 billion Savings Plus program's 457(b) and 401(k) plans, spokeswoman Nicole Shaw said. The department will issue an RFP due to the upcoming expiration of current administrator Nationwide Financial's contract, she said. The firm will be eligible to rebid. The RFP will be posted on the California state procurement website on or after July 1, Ms. Shaw said. Proposals will be due at 3 p.m. PDT on Sept. 1.

For a comprehensive database of search and hiring activity, visit P&IQ at **PIonline.com/piq.**

Climate

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mate risks and how they will approach energy transition, other industries, including airlines and railroads, were not immune. Even Walmart Inc. got the message, through a resolution filed by Rhode Island Treasurer Seth Magaziner asking how it will reduce refrigerants that contribute to climate change. While the first climate-related refrigerant resolution won just 5.5% of the votes, it squeaks by the threshold for it to be considered next year.

"It has been a big year for climate," said Liz Gordon, executive director of corporate governance for the $254.8 billion New York State Common Retirement Fund, Albany.

"This proxy season saw a lot of movement. I think we are seeing real recognition by investors of the risk and opportunities. We are also seeing a growing response from companies who are also seeing the risk of not responding" to investors' concerns, Ms. Gordon said.

Just ask Exxon Mobil Corp.'s board directors. Frustration with the company's inaction addressing climate risk and energy transitions led New York State Common, the $469.8 billion California Public Employees' Retirement System, Sacramento, and $299.8 billion California State Teachers' Retirement System, West Sacramento, to back hedge fund firm Engine No. 1's winning bid to replace two of them with independent directors experienced in clean energy and energy transitions.

Support from Washington

Investors are also getting significant backup from Washington. While they welcomed the Biden administration's move to rejoin the Paris Agreement among other signals, one game changer is expected to be new climate-related disclosure mandates from the Securities and Exchange Commission, with a proposal expected by October. The proposal is aimed at having companies disclose their level of climate-related risk and links to long-term financial prospects.

The White House also supports legislation passed by the House June 18 that would require public companies to disclose ESG metrics and how they connect with long-term strategies.

Any new SEC disclosure requirements would apply to public companies, but the private sector needs to get ready, to meet investor demand, said Elaine Chim, head of private equity for Americas and Asia-Pacific at Apex Group Ltd., a global financial services provider in New York. As sustainable investing grows, so does the push for better disclosure of strategies and results. "Investor pressure is definitely one driver. The other one is regulatory," said Ms. Chim, who expects U.S. regulators to follow a similar route now being taken in Europe, with mandated disclosure rules in the works.

On June 22, the U.K.'s Financial Conduct Authority proposed climate-related disclosure rules for public companies, money managers, life insurers and FCA-regulated retirement plan providers to align with existing Task Force on Climate-related Financial Disclosures standards.

In the U.S., "I think people are still picking and choosing what they want to disclose. When it's mandatory, it is going to be a challenge. From an investor perspective, if the SEC moves forward like its European counterpart, it should make it easier to compare across the board," Ms. Chim said. "It's not going to be without a fight."

Having all companies report their climate risks and strategies for dealing with them would be huge progress, observers say. "Investors are interested in having better standardization of reporting. That's an ongoing hot topic," said Dayna Harris, partner with Farient Advisors, a Los Angeles-based executive compensation and corporate governance consulting firm that helps companies, large public pension funds and mutual funds review proxies and prepare votes on executive pay packages.

ACKNOWLEDGMENT: Liz Gordon believes companies are recognizing the risks of not responding to investors' climate concerns.

"Your carbon footprint is a big deal" to investors, she said. When executive pay comes up, what companies are doing about climate risk "is a discussion point whether it should be considered. There is concern about whether companies are doing enough."

Pressure on Exxon

Christian Brothers Investment Services, Chicago, a $10 billion asset manager for Catholic institutions, wanted Exxon Mobil to produce an audited report on the financial impacts to the company under a net-zero emissions scenario by 2050. Initially hoping for 30% support for the first-time resolution, "we were ecstatic" with the near-majority vote of 48.9%, said Chief Investment Officer John W. Geissinger.

"I think this proxy season really reminded everyone that the shareholders are the owners. I think what we saw is shareholders of the company not only have a right but a responsibility to speak out," he said.

When it comes to climate risk and the energy transition, "we truly believe that these companies are going to be part of the solution. The proxies filed are to some extent encouraging the companies not to be a follower" but instead be proactive, said Mr. Geissinger, who anticipates more frequent shareholder demands on companies to do more. "We are going to keep asking," he said. While companies are not compelled to act on shareholder resolutions, regular ongoing engagement by investors is much harder to ignore.

This proxy season, investors also ramped up pressure on companies to make sure that their corporate stances on climate risk and lobbying activity line up. "The real change is going to come with policy change. That's why it's so important that their lobbying aligns with that," said Ms. Gordon of New York State Common. State Comptroller Thomas P. DiNapoli is trustee of the pension fund and has a goal to transition the portfolio to net-zero greenhouse gas emissions by 2040.

Widely supported proposal

While there was a proliferation of shareholder proposals for climate-related lobbying disclosure this proxy season, perhaps the most dramatic result came from a shareholder proposal filed with Norfolk Southern Corp. by the Quaker investment firm Friends Fiduciary Corp.

It won support from 76.4% of voters for a report on if and how the company's lobbying activities, including through its trade associations, align with the goals of the Paris Agreement. While Norfolk Southern supports the Paris Agreement, its trade associations have lobbied against the agreement's goals on global temperature increases, and the company's board does not adequately oversee the misalignments, said Jeffery W. Perkins, executive director of the Philadelphia firm that manages $600 million in assets for 420 Quaker-affiliated organizations.

"We think if a company is saying something privately, they ought not to be doing something differently. It's something the industry has resisted," said Mr. Perkins, whose organization is part of the Interfaith Center on Corporate Responsibility's climate lobbying initiative. "The current engagement really reflects our sense of urgency around the climate risk, and business risks," he said.

Friends Fiduciary Corp. has always voted to uphold Quaker values, "but we also make the business case. The fact that large institutional investors were behind this, to me that sends an undeniable message to the company. I've seen the market move to where we have always been," Mr. Perkins said. He expects the level of urgency on climate-related lobbying "to do nothing but increase. Investors feel the need to make these changes now," he said. ■

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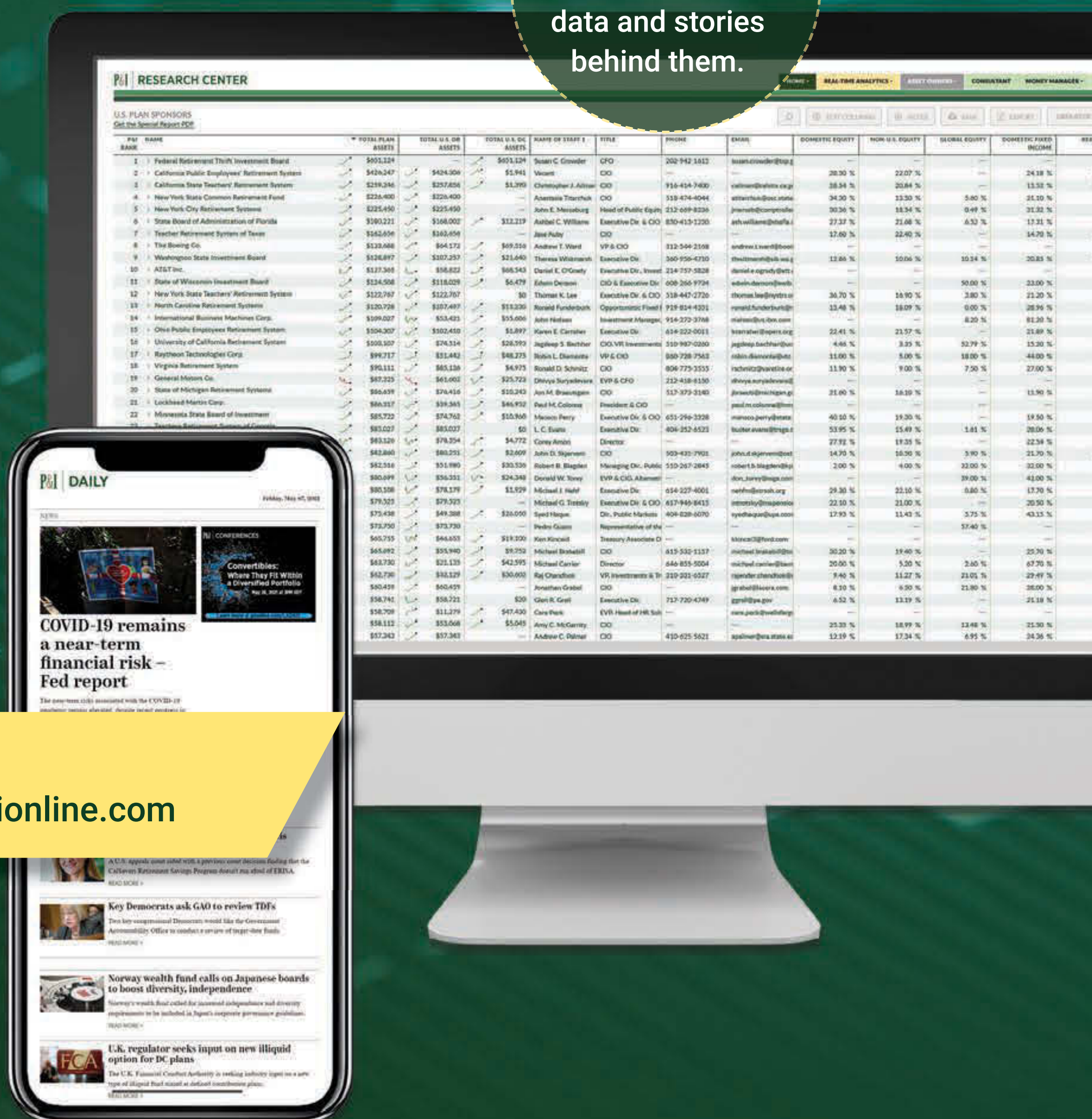

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