Pensions&Investments

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CRAIN COMMUNICATIONS

Real Estate

Climate change knocking, but not all managers home

In growing Sun Belt, climate effects could pinch property returns

By ARLEEN JACOBIUS

Some of the most in demand regions in the U.S. for real estate investment, most notably the Sun Belt, are also getting clobbered by the floods, extreme heat and other ravages of climate change — potentially impacting returns.

It's a worldwide challenge that is threatening to chisel away at expected returns across real asset sectors, from housing and office to retail. Some real estate managers are starting to exit properties early or decline to invest in real estate with relative good near-term return potential but at substantial climate risk.

There were 20 extreme climate disaster events with losses exceeding $1 billion in the U.S. in 2021, including one drought, two floods, four tropical cyclones and 11 severe storms, according to the National Oceanic and Atmospheric Administration, much of it in the Sun Belt, an area in the U.S. that stretches from the Southeast to the Southwest.

Between 1980 and 2021, the annual average was 7.7 events, increasing to 17.8 events on average in the most recent five-year period, 2017 to 2021. NOAA defines extreme weather as an event that costs $1 billion or more, adjusted for inflation.

The three states most vulnerable to extreme weather are all in the Sun Belt: Texas, Louisiana and Flor-

SEE SUN BELT ON PAGE 22

Jeffrey Isaac Greenberg

PREPPING: As storms get more extreme, so could damage to property in the Sun Belt.

Ray Glaser

CLARIFYING: Dafna Revah said she got lots of questions about what her CBD company does.

Retirement Plans

Cannabis companies look for legal protection to offer 401(k)s

By MARGARIDA CORREIA

Dafna Revah, co-founder and co-owner of cannabis dispensary CBD Kratom, had a lot of explaining to do when her bank referred her to a record keeper willing to provide her company with a 401(k) plan.

Ms. Revah emphasized that all company products — the tinctures, pain balms, extracts and cannabis-infused chocolate, caramels, gummies and other edibles — were all "federally legal." None, she repeatedly explained, had Delta-9 THC, the cannabinoid that is illegal under federal law.

"There were a lot of questions," she said of the record keeper, EPIC Retirement Plan Services. "They wanted clarification on what it is we sell and what it is we do."

In November 2019, roughly five months after initiating conversations with EPIC, CBD Kratom introduced a 401(k) plan for the company's 450 employees,

SEE CANNABIS ON PAGE 26

SPECIAL REPORT INVESTMENT OUTSOURCING

Demand for OCIO growing amid volatile markets, complex assets

Assets increase 5.4% for year to $2.66 trillion, up 86.1% since 2017

By PALASH GHOSH

Increasing complexity of assets. A need to move quickly to adjust to volatile markets and uncertainty. Those are just a few of the reasons why industry experts and consultants say demand for outsourced CIO managers will only continue to grow.

According to data compiled by *Pensions & Investments*, OCIO assets managed for institutional investors worldwide with full or partial discretion surged to about $2.66 trillion as of March 31, up 5.4% from 2021 and 86.1% from 2017.

"Looking at (asset owners') cost structures and resources, it just makes more sense for them to outsource their investment management," said Michael Cagnina, Oaks, Pa.-based vice president and managing director of the institutional group at SEI Investments Co. "Plus, the market has more esoteric asset classes like private equity, cryptocurrency, infrastructure, real estate, etc., that OCIOs are more likely to have expertise in and familiarity with."

SEE OUTSOURCED ON PAGE 16

MORE ON INVESTMENT OUTSOURCING

Money Management

Asset managers affirm they'll pay for travel

Supreme Court abortion ruling prompts firms to cover expenses for employees

By MICHAEL THRASHER, CHRISTINE WILLIAMSON and ARLEEN JACOBIUS

Asset managers BlackRock Inc., Fidelity Investments and State Street Corp. have joined other financial services firms in affirming that they would pay for employees' travel expenses related to abortion care, wading into a divisive societal issue that could strain relationships with clients as well as employees.

Their comments came in the wake of the U.S. Supreme Court's ruling on June 24 in the Dobbs vs. Jackson Women's Health Organization case that overturned Roe vs. Wade, a case that set a federal precedent nearly 50 years ago guaranteeing women the right to seek an abortion.

Abortion became illegal or more restricted in more than 20 states through trigger laws, new laws, or laws that preceded Roe, and employers are reacting.

SEE TRAVEL ON PAGE 21

RELATED CONTENT

SOUND BITE

TWUSUPER'S **EDWARD SMITH:** 'It sometimes takes a bit of nerve because you're buying something that's actually just had a really dreadful run, (but decisions like this are when) **you really measure your worth** as an investment manager.' **Page 3**

Shareholders push on ESG

This proxy season investors pushed companies to do more and take specific ESG actions. **Page 3**

IN THIS ISSUE

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P&I prepping survey of hedge fund managers

P&I is collecting data from hedge fund managers via a survey for its annual hedge fund special report, which will be published Sept. 19. Surveys will be emailed directly to hedge fund managers July 6 and are due Aug. 5.

The survey asks hedge fund managers to provide worldwide and institutional assets under management as of June 30, 2022.

To participate in the survey, please contact Trilbe Wynne at **twynne@pionline.com** to receive the digital link to the survey.

If you would like more information about the hedge fund special report, please contact Christine Williamson at **cwilliamson@pionline.com**.

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Retirement Plans

Active managers face headwind in Oz test

Tracking error now a big factor in superannuation fund performance reviews

By **DOUGLAS APPELL**

The challenges facing Australian superannuation funds in pursuing the best possible retirement outcomes for participants while passing a new performance test the government introduced last year are proving a headwind for managers of contrarian, high-active-share equity strategies.

The annual performance test, a centerpiece of the Your Future, Your Super reforms passed by Australia's Parliament in 2021, imposes severe penalties on funds whose annualized investment returns for their strategic asset allocations trail government-designated benchmarks by 50 basis points or more for a rolling eight-year period.

The test — focusing on performance relative to each fund's strategic asset allocation targets, as opposed to rewarding outcomes designed to produce the largest possible retirement pools for participants — has made tracking error a first-order consideration for super funds.

"The YFYS performance test is a new framing of what constitutes underperformance and a notable departure from the primary focus on long-term member return outcomes" linked to inflation-plus targets, said James Gunn, senior consultant on Melbourne-based investment consulting firm Frontier Advisors' equity research team.

Under the test, active management and allocations to higher tracking error are direct sources of regulatory risk, "particularly over short time periods," Mr. Gunn said.

With the reforms, "the landscape has shifted," agreed Annika Bradley, Brisbane-based director of manager research ratings for Asia-Pacific with Morningstar Inc. and previously an independent consultant advising super funds and wealth managers. The propensity of super funds to allocate to contrarian, high-active-share managers has diminished in an environment where benchmarks have gone from an afterthought to being front and center, she said.

To a large extent, the degree to which super funds will focus more on bench-

SEE **SUPERS** ON PAGE 24

RELATED CONTENT

▪ TWUSUPER revamps portfolio to make modest size a strength. **Page 4**

Hilary Cam

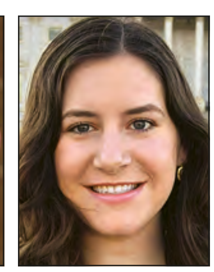
MORE LAYERS: Mercer's Gwion Moore said the super reforms add a new dimension to the portfolio construction process.

Staffing

Pensions & Investments adds audience editor, 2 reporters

Gennady Kolker

Michael Thrasher



Courtney Degen

Pensions & Investments has added three new staff members to its team of award-winning editors and writers.

Gennady Kolker has been named audience development editor at *Pensions & Investments*. Mr. Kolker was most recently director of premium content packaging at the Bleacher Report, a website featuring sports content where he spent four years overseeing content strategy and distribution of premium content across owned and operated channels and social platforms that reached more than 90 million users.

Prior to that, he was a growth editor at Home Box Office Inc., where he bolstered marketing efforts with data-driven insights to support quality programming such as "Game of Thrones," "Last Week Tonight with John Oliver" and "Real Time with Bill Maher."

Mr. Kolker also led media relations at the Guardian U.S., the New York-based online arm of the U.K.'s The Guardian, where he was one of a handful of team members who were awarded the Pulitzer Prize for public service journalism for the Edward Snowden story.

Mr. Kolker is based in New York and can be reached at **gennady.kolker@pionline.com**.

Also, **Michael Thrasher** has joined *P&I* as a senior reporter covering asset management.

Mr. Thrasher was previously a reporter and editor at Institutional Investor's RIA Intel. Before that, he reported for wealthmanagement.com, where he covered industry trends and some of the largest wealth managers, including groups within Morgan Stanley, UBS Group AG, Wells Fargo & Co., and Bank of America Corp.

He is a native of Akron, Ohio, and a graduate of Ohio University, where he received his undergraduate degree in English. Mr. Thrasher is based in New York and can be reached at **michael.thrasher@pionline.com**.

Additionally, **Courtney Degen** has joined the staff as a reporter in Washington, where she will cover breaking news on regulatory and legislative developments. Ms. Degen recently graduated with a master's degree from Northwestern University's Medill School of Journalism, specializing in politics, policy and foreign affairs. While in the school's Washington-based program, she covered politics and policy-related issues for a wide variety of publications, including the Wisconsin State Journal, UPI and USA Today.

Ms. Degen received her bachelor's degree from the University of Wisconsin-Madison in 2021, where she studied journalism and political science. As an undergraduate student at the University of Wisconsin-Madison, she also worked as a reporter for Madison Commons, a local news source centered on community issues. Ms. Degen first moved to Washington in January 2020, when she interned for the Department of Justice, Office of Public Affairs. She can be reached at **courtney.degen@pionline.com**.

Awards

P&I's Baker nabs top honors in CFA journalism awards

Sophie Baker, London-based international news editor of *Pensions & Investments*, has received top honors in the 2022 Journalism Awards from the CFA Society of the U.K.

Ms. Baker edits and reports on institutional investment and money management across the globe. The CFA U.K.'s program, now in its 10th year, recognizes journalists' articles that highlight ethical and professional standards in the U.K. investment sector.

Sophie Baker

Ms. Baker, one of five journalists to be recognized, was named CFA U.K. Trade Journalist of the Year for her April 19, 2021, article, "Debate over changes to listing rules roils U.K."

Ms. Baker's story focused on the split among money managers and market players on whether recommendations to amend U.K. listing rules were a good idea from a governance point of view and the right way to attract more capital to London.

The U.K. Listings Review, published in March 2021, was launched by the U.K. chancellor of the exchequer in 2020 to ensure the U.K. could stand up to "stiff competition as a financial centre" from the U.S., Asia and elsewhere in Europe, a document of the review said.

In a June 30 news release from the CFA Society of the U.K., program judge Jane Fuller said: "The debate, in the wake of the Hill review, over whether U.K. listing rules should be relaxed to attract companies to the London market was both fierce and principled. Sophie Baker's article stood out for its clarity and balance on this highly relevant subject."

The society noted in its news release that the awards were determined by reviews of multiple, anonymized submissions from leading national and investment publications. The judging panel consisted of volunteers from the CFA U.K. membership.

ESG

Investors push companies for specific ESG actions

Proxy season sees record level of resolutions and wider focus

By HAZEL BRADFORD

Institutional investors filed a record number of shareholder resolutions this proxy season as they pushed companies to go both deeper and wider on ESG issues.

For recurring ESG concerns such as climate change and diversity, investors pushed public companies to go deeper by providing quantitative reporting and specific plans.

They also widened their ESG lens, pressing topics like human capital management, political spending and lobbying and biodiversity.

Above it all, investors put more pressure on corporate board directors to show how they are managing their ESG challenges.

As the 2022 proxy season got underway in early spring, shareholders had filed 20% more ESG resolutions than the previous year, according to shareholder advocacy groups As You Sow, the Sustainable Investments Institute and Proxy Impact.

In the U.S., some of the momentum is being attributed to leadership and policy changes at the U.S. Securities and Exchange Commission, where companies have had less success this year blocking shareholder resolutions and are preparing for tougher climate disclosure rules later this year.

While there is also political pushback in the U.S. against further regulation, "more and more companies understand that the economy is changing," said Josh Zinner, CEO of the Interfaith Center on Corporate Responsibility in New York, an ESG shareholder advocacy group representing 300 global institutional investors with more than $4 trillion in managed assets collectively.

This proxy season, ICCR members filed 489 resolutions, compared with 308 last year. To date, 34 ICCR member-led resolutions have received majority votes, compared with 23 last year.

SEE PROXY ON PAGE 22

Marcelo Paz

LINKED: Mirza Baig saw shareholders push for executive compensation to be tied to ESG metrics.

Defined Contribution

Thrift Savings Plan addresses stumbles on website updates

By ANNELISE GILBERT

Six years after making the decision to upgrade participant services, the Federal Retirement Thrift Investment Board transitioned to a new record keeper for the massive $739.9 billion Thrift Savings Plan, Washington, rolling out a slew of updates and new services.

But even with extensive testing of the new website, the investment board and its new record keeper did not foresee record-breaking call volumes from some of the 6.6 million federal employees and members of the uniformed services who invest in the retirement system that it administers.

In the weeks since the June 1 launch, participants have reported log-in issues, long customer service wait times and transaction difficulties.

FRTIB hired Accenture Federal Services as its new record keeper in November 2020, and Accenture's contract began with the implementation of new plan features such as an updated participant log-in interface; a TSP mobile app; the ability to electronically sign documents and complete transactions online; and the opening of a mutual fund brokerage window.

"We're well aware of the challenges that we're having around the call center, that being the biggest challenge that we're experiencing today, and we're working hard to return to our customary excellent services," said Tee Ramos, director of the office of participant

SEE THRIFT ON PAGE 25

Courts

DOL opposes arbitration in ERISA case

Ian Wagreich

BROADER IMPLICATIONS: The U.S. Chamber of Commerce's Chantel Sheaks said the issue is bigger than just one ESOP lawsuit.

Agency tells appeals court participants are entitled to 'full range of ERISA remedies'

By ROBERT STEYER

A lawsuit criticizing a private company's employee stock ownership plan has turned into a policy dispute about arbitration clauses in ERISA plans, pitting the U.S. Department of Labor against prominent retirement industry trade organizations.

In its first-ever amicus brief about arbitration clauses in an ERISA plan, the Labor Department supports a plaintiff suing his employer and fiduciaries over the value of an ESOP. The defendants argue that the complaint should be addressed by arbitration rather than in the courts.

The DOL "is not here contending that ERISA claims are categorically non-arbitrable," said the amicus brief filed June 10 in Cedeno vs. Argent Trust Co. et al., which is now before the 2nd U.S. Circuit Court of Appeals in New York. However, "a participant cannot be compelled to arbitrate if they are deprived of the full range of ERISA remedies that would be available had they brought the same claim in federal court," the document said.

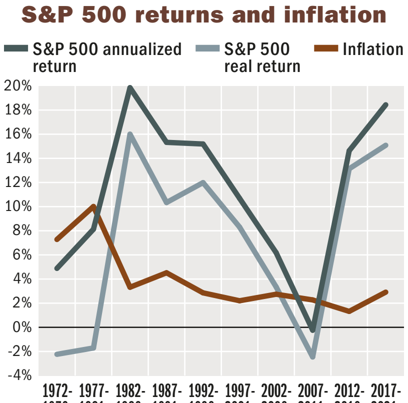
SEE ARBITRATION ON PAGE 25

The specter of stagflation

Inflation has persisted for much longer than the Federal Reserve anticipated, due to supply shocks from Russia's invasion of Ukraine and the aftereffects of the pandemic. That has caused some economists and market strategists to question whether the U.S. economy could return to a 1970s-like era of stagflation, and potentially fall into a recession. Should that occur, equity returns would likely drop further.

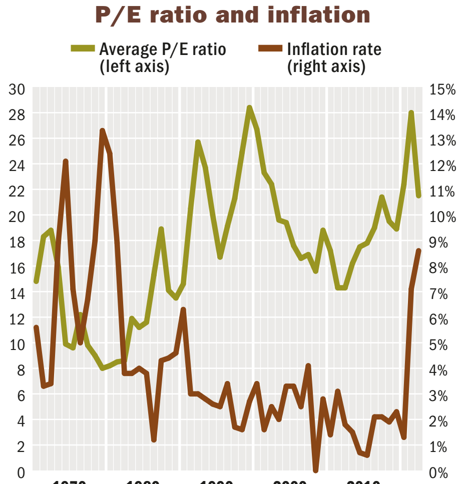
Eroding returns: The S&P 500 index had negative real returns from 1972 to 1976 and 1977 to 1981, when annualized inflation was 7.3% and 10%, respectively. The only other period in which a negative real return occurred in the past 50 years was 2007 to 2011, during the Great Recession.

S&P 500 returns and inflation



Lower earnings multiple: Rising inflation and the S&P 500's price/earnings ratio have been negatively correlated. Since 1970, there is a -0.56 correlation between annual inflation rate and the P/E ratio.

P/E ratio and inflation



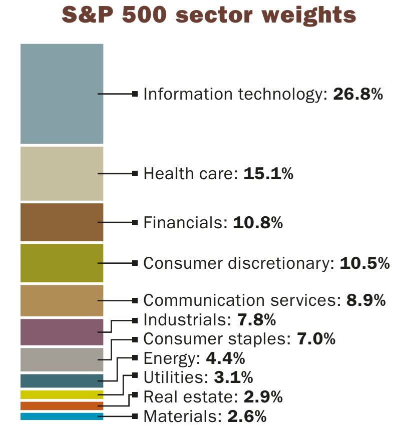
Cherry-picking sectors: The S&P 500's Q1 operating margin contracted by about 110 basis points from a year ago. However, some sectors, such as energy, have done better than others during high inflationary periods.

Operating margin by S&P 500 sector

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
S&P 500	13.0%	13.5%	13.2%	13.4%	11.9%
Energy	4.0%	6.1%	9.0%	10.4%	11.0%
Real estate	17.9%	23.2%	22.3%	24.3%	21.0%
Materials	11.0%	14.3%	12.8%	12.2%	13.6%
Industrials	6.8%	9.4%	9.5%	8.5%	7.8%
Information technology	22.0%	22.4%	23.6%	24.4%	23.0%
Consumer staples	7.2%	8.0%	7.8%	7.3%	7.1%
Health care	10.0%	9.6%	10.6%	9.0%	9.4%
Utilities	14.6%	11.5%	14.8%	8.5%	12.9%
Communication services	19.2%	18.5%	17.9%	16.8%	16.0%
Consumer discretionary	7.9%	8.2%	7.3%	8.6%	4.3%
Financials	24.4%	25.3%	20.3%	24.0%	17.9%

Low energy: Although energy's performance has been an outlier this year, it represents less than 4.5% of the S&P 500. Information technology is the index's largest sector, at about 27%, but sluggish economic growth might weigh on the sector's profitability.

S&P 500 sector weights



Sources: Bloomberg LP, Federal Reserve Economic Data, Department of Labor Statistics, S&P Dow Jones Indices

Compiled and designed by Larry Rothman and Gregg A. Runburg

Steffen Pedersen

FOCUS: Edward Smith said small funds have an advantage when capacity is constrained.

Retirement Plans

Australian super fund retools portfolio with eye to compete

CIO says TWUSUPER's smaller portfolio isn't a drawback in investing

By **DOUGLAS APPELL**

TWUSUPER, a superannuation fund focused on Australian transport workers, has reconfigured its A$6.2 billion ($4.3 billion) portfolio to better compete in an environment where regulators are pressing smaller funds to prove they can go toe-to-toe with their bigger brethren in providing good retirement outcomes.

The Melbourne-based fund's MySuper default option passed a newly mandated annual performance test last year by a whisker, trailing benchmark returns for its strategic asset allocations by an annualized 47 basis points in a system where minus 50 basis points or lower is a failing grade. While a number of the funds that did fail last year have been merged into bigger funds in line with long-standing regulatory pressures, TWUSUPER shows no signs of moving in that direction.

Over the past year or two, the super fund has worked to cut external manager fees, made its first significant allocations to passive strategies and focused its active management budget on capacity-constrained segments such as small-cap and microcap equities, said Edward Smith, TWUSUPER's chief investment officer.

Elsewhere, the fund has boosted allocations to inflation-resilient real assets, including unlisted infrastructure and property, and most recently moved to reduce a long-held underweight to duration as bond yields rebounded from historic lows.

In the wake of last year's "Your Future, Your Super" reforms, including the annual performance test that carries severe consequences for funds that fall short, "it's not a simple world of risk and returns anymore," Mr. Smith said in a June 20 interview.

By way of example, TWUSUPER had previously been able to maintain a relatively conservative asset allocation, sacrificing some returns during bull market rallies in line with a median age of 47 for the fund's 104,000 participants — a decade older than funds with younger demographics, such as Melbourne-based Hostplus, the A$68 billion fund focused on employees in Australia's tourism and hospitality sectors.

Now, however, "we get penalized for that when the main metric used by the regulator is benchmark relative," Mr. Smith said, making peer-relative performance critical and benchmark-relative performance absolutely critical.

That mix of regulatory and competitive pressures — participants can walk if returns aren't as good as they can get elsewhere — requires a multidimensional approach to risk that looks to optimize several different things all at the same time, he said.

According to Australian Prudential Regulation Authority statistics, TWUSUPER's balanced default offering delivered an annualized return of 8.01% for the seven years ended June 30, 2021.

Performance leaders such as Hostplus and AustralianSuper, the industry's biggest fund with A$261 billion in retirement assets, both of Melbourne, posted respective gains over that period of 9.5% and 9.65%.

Economies of scale

Regulators, meanwhile, continue to play up the advantages economies of scale give larger funds, such as allowing them to run more sophisticated investment programs at lower costs for participants.

In a June 23 speech at a "meet the regulators" event in Melbourne, Wayne Byres, chairman of the Australian Prudential Regulation Authority, took the opportunity to

SEE TWUSUPER ON PAGE 27

2022 CONFERENCE CALENDAR

Join P&I and thought leaders from across the industry for one of these insightful conferences. We look forward to welcoming you virtually or in-person to share amazing content and ideas.

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Retirement Income Conference

San Francisco | September 20, 2022
New York | September 22, 2022

Virtual | September 29, 2022

Managing Pension Risk & Liabilities Conference

Dallas: October 11, 2022
New York: October 13, 2022

Virtual | October 20, 2022

Defined Contribution West Conference

San Diego | October 23-25, 2022

The Evolution of OCIO

Boston | November 1-2, 2022

Virtual | November 8, 2022

WorldPensionSummit

The Hague | November 2-4

Fixed Income & Credit Conference

Chicago | November 15, 2022
New York | November 17, 2022

Virtual | November 29, 2022

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Pensions&Investments

Washington

Court's EPA ruling could put DOL rule-making in crosshairs

'Clear congressional authorization' at issue for agency regulations

By ROB KOZLOWSKI

The U.S. Supreme Court's decision June 30 in favor of West Virginia in the state's lawsuit against the Environmental Protection Agency regarding that agency's regulatory authority could affect the Department of Labor's authority in rule-making, some ERISA attorneys agree.

The court's 6-3 ruling appears to limit the EPA's ability to regulate the emissions of greenhouse gases to individual power plants rather than more ambitious efforts such as cap-and-trade systems, in which carbon emissions are given a price that would motivate them to invest in cleaner technologies.

The lawsuit had challenged the level of the EPA's authority to regulate carbon emissions from power plants under the Clean Air Act.

Carol Buckmann, a partner at law firm Cohen & Buckmann PC, said in an email that she thinks today's decision may impact DOL actions.

She cited that agency's issuance earlier this year of Compliance Assistance Release 2022-01, a document for 401(k) plan fiduciaries telling them to "exercise extreme care" before selecting cryptocurrency as an investment option in plan menus.

ForUsAll Inc., a 401(k) plan administrator that offers cryptocurrency to participants through a self-directed brokerage window, filed a lawsuit on June 2 against the DOL seeking to vacate that guidance.

"For example, one argument made in that complaint is that the DOL singled out one asset class for special negative treatment even though the Employee Retirement (Income) Security Act doesn't give the DOL authority to do that. That argument seems stronger today," Ms. Buckmann said.

"That is the most current example, though other actions, such as the rules governing investment advice relating to rollovers, or other DOL guidance that has potentially broad impact, may also be vulnerable," she added.

The key question is whether certain regulations fall under the major questions doctrine, which states that administrative agencies must be able to cite "clear congressional authorization" when they make decisions of wide-ranging "economic and political significance."

Joseph J. Torres, a Chicago-based partner at Jenner & Block LLP and chairman of the firm's ERISA litigation practice, said in an email that the underpinnings of today's decision may invite further scrutiny of the DOL.

"Like the EPA, many of the statutes that the DOL looks to for its authority were passed long ago. Thus, as the DOL seeks to regulate

SEE EPA DECISION ON PAGE 21

PEOPLE ROUNDUP

Changes at top for Australia's Future Fund

Sue Brake is stepping down as chief investment officer of Australia's Future Fund for family reasons, according to a news release from the Melbourne-based sovereign wealth fund June 21.

Sue Brake

Raphael Arndt, CEO of the fund, which reported portfolio assets of A$200.7 billion ($150.8 billion) as of March 31, will take on the additional role of acting CIO until a permanent replacement can be named, the news release said.

Prior to becoming CEO, Mr. Arndt had been CIO from 2014 through 2020.

Ms. Brake, named acting CIO in July 2020, was subsequently elevated to CIO in December of that year, overseeing the fund's investments through the market turbulence that followed the global pandemic crisis of early 2020.

Under her watch, the fund moved to boost its resilience to inflationary pressures before the need to do so became obvious, and the portfolio strategy increased its focus on idiosyncratic sources of alpha.

Ms. Brake couldn't be reached for further comment.

With Ms. Brake's departure, the Future Fund will restructure its investment team with three deputy CIO roles reporting directly to the CIO.

Wendy Norris, formerly deputy CIO, private markets, will become deputy CIO, change and innovation.

Alicia Gregory, previously head of private equity, will take on the broader role of deputy CIO, private markets.

Ben Samild, formerly deputy CIO, portfolio strategy, will become deputy CIO, portfolio construction — effectively combining the roles of deputy CIO, portfolio strategy and deputy CIO, public markets.

Andrew Formica will retire as CEO at Jupiter Fund Management,

SEE PEOPLE ON PAGE 26

FRONTLINES

LENDING A HAND

GuideStone's $100,000 donation provides help to Ukrainian refugees

GuideStone Capital Management LLC has donated $100,000 to a group that is helping Ukrainian refugees affected by Russia's invasion of the country.

David Spika

Half of the donation to non-profit organization Send Relief is the result of the faith-based money manager's commitment to give 20% of the returns from its Global Impact Fund to charity, said David Spika, chief investment officer, in a phone interview.

Mr. Spika said while the Dallas-based manager has traditionally screened out industries that ran counter to the Christian values they espouse, several years ago they decided to be more proactive.

"If we really want to have a meaningful impact in the world, we need to be owning securities in companies that are doing good," Mr. Spika said. That led to the creation of the Global Impact Fund.

Send Relief is a collaboration between the International Mission Board and North American Mission Board, and Mr. Spika said last year that GuideStone's donation to the organization funded efforts to provide medicine, food and basic necessities to people in Venezuela.

This year, the donation funds Send Relief's efforts to help Ukrainian refugees who have fled to Poland.

"Hopefully, the fund will grow and we'll be able to do more good around the world," Mr. Spika said.

GuideStone Capital Management has $18.2 billion in assets under management. The Global Impact Fund, which was launched in January 2021, had $9 million in AUM as of June 7.

— ROB KOZLOWSKI

Lafargue Raphael/Abaca

RELIEF EFFORTS: Ukrainian refugees cross a destroyed bridge during heavy shelling by Russian forces.

Neeto da Silva

FOCUS AREA: Tom Scheibelhut pointed to ESG as a future topic CEM Benchmarking plans to explore.

GETTING ON THE SAME PAGE

CEM Benchmarking sets out to create global reporting standard

CEM Benchmarking Inc. is creating a new global reporting standard for institutional investors.

The global benchmarking company said it launched the initiative as a result of its institutional clients' requests to address a need to provide clarity in the gray areas of public reporting by region, said Tom Scheibelhut, Toronto-based head of product innovation, in an interview.

Much of that gray area involves the total investment cost of private equity, he said, and clients are asking: "Should management fees be reported net or gross of offsets, (and) is carried interest a fee at all?"

"There are some that believe executive compensation should be reported, and some don't," Mr. Scheibelhut said.

"I think there's a real need, there's a gap out there, there's no global cost reporting," he said. "We do want to improve the quality of reporting everywhere," he added.

The initial focus of the global reporting standard will be that definition of total investment cost, which will be followed by recommendations regarding cost disclosure detail and contextualization. CEM Benchmarking plans to release a draft in early 2023 that will be available for comment, he said.

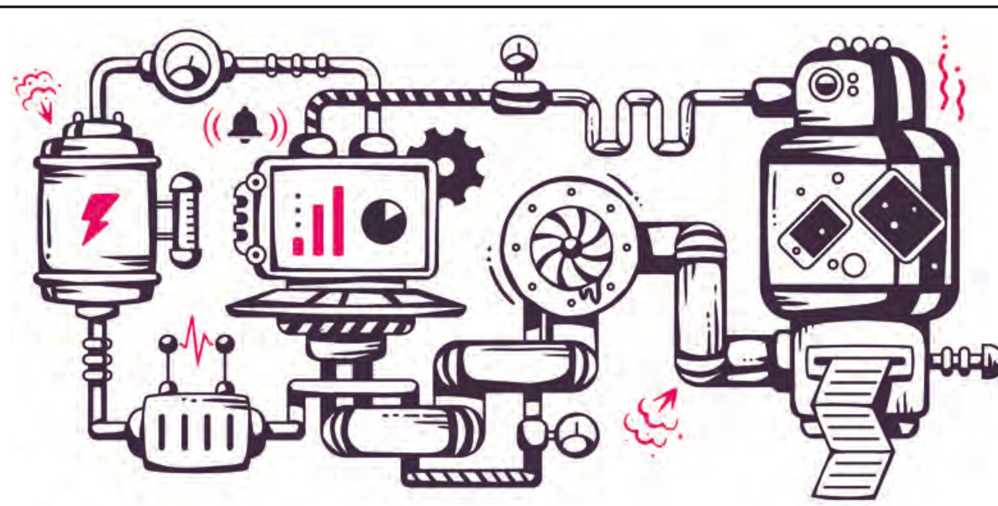
Future topics the benchmarking company plans to explore are pension administration costs and ESG, Mr. Scheibelhut said.

A board advising on the creation of the global reporting standard for institutional investors, or GRSii, will initially consist of seven global asset owner executives, including Christopher J. Ailman, chief investment officer of the $314.8 billion California State Teachers' Retirement System, West Sacramento.

— ROB KOZLOWSKI

PRACTICE MAKES PERFECT

Simulator offers Norwegian fund a test drive for its investments



Ivan Vlasov

Norway's sovereign wealth fund has launched an investment simulator, which aims to assist its portfolio managers with their investment decisions.

Norges Bank Investment Management, which runs the assets of the Government Pension Fund Global, Oslo, developed the simulator "to improve the quality of our investment decisions, which over time hopefully leads to stronger investment performance," said NBIM spokeswoman Line Aaltvedt, in an email. The sovereign wealth fund had 12.34 trillion Norwegian kroner ($1.4 trillion) in assets as of Dec. 31.

To capture rationale and reasons behind all investment decisions, the simulator uses historical investment order records to address dimensions, coupled with internal and external data sources to analyze the impact of strategy decisions and highlight significant attributes, Ms. Aaltvedt said. The simulator works to build "insight into the decision-making process based on facts and data analytics." Additionally, portfolio managers can use the simulator to "self-reflect" and "leverage strengths and address weaknesses," she said.

All design and analytical tools were developed internally with NBIM's systematic and quantitative strategies group, technology developers and portfolio managers. Currently, about 30 portfolio managers within the active equity portfolio management area use the simulator, and NBIM is working to expand its use to additional areas.

While it is too early to conclude whether the simulator has resulted in any tangible investment changes, "some portfolio managers say they are now aware of personal attributes, strengths and improvement areas they did not know about, and take this information into their investment decisions," Ms. Aaltvedt said.

— ANNELISE GILBERT

INVESTING IN ITS COMMUNITY

Investcorp helps fund scholarships for its tenants

Investcorp executives are investing in the tenants in its apartment complexes, committing $500,000 to provide scholarships for trade schools.

Earlier this year, the alternative investment firm partnered with TitanCorp's THRIVE, a trade school scholarship program offered by value-added real estate manager TitanCorp to residents of its $2 billion apartment community portfolio. As of March 31, Investcorp had $41.2 billion in assets under management, including assets managed by third-party managers.

So far, Investcorp has awarded one scholarship — $1,400 for an English language class, an Investcorp spokeswoman said in an email. Investcorp has received 10 applications for scholarships, with a few more currently in the queue, including another scholarship for an English language class, and one for a medical assistant/phlebotomist course.

To apply for the scholarship program, each applicant must sign a pledge about promising to uphold TitanCorp's philosophies, according to the TitanCorp's THRIVE scholarship website.

Among the 10 statements that make up the pledge are "I understand that I am in control of my life" and "I understand that dreams don't work unless I do."

Michael O'Brien, co-head of real estate, North America at Investcorp, said in a news release that there is a "strong need for qualified individuals with advanced degrees." The scholarships will give recipients "the opportunity to reach new goals and find success in their communities," Mr. O'Brien said.

— ARLEEN JACOBIUS

OPINION

OTHER VIEWS HANS STOTER

Asset managers need to work together to effect real change

Engagement has become the new battleground in ESG. Asset managers investing through a responsible lens now, in effect, compete on how they are influencing companies to act in line with their values. But are we now at a point where, on some of the planet's most pressing issues, asset managers should simply declare a truce and seek ways to collaborate even more beyond and within existing shareholder initiatives?

Hans Stoter, based in Paris, is the global head of AXA IM Core, a unit of AXA Investment Managers that combines fixed income, multiasset and equities.

Engagement has come a long way in recent years and now sits at the vanguard of responsible investment. Gone are the days when "active ownership" meant a brusque letter to the company secretary — now engagement is a central feature of the approach of many asset managers, often involving responsible investment specialists, analysts and portfolio managers. Engagement policies and frameworks vary, but are becoming progressively stringent; some companies now face strict escalation protocols that can lead to divestment if objectives are not met within set time frames. Executive pay and corporate governance are increasingly being targeted, too, with some asset managers pledging to vote against boards refusing to set clear ESG commitments, targets and performance measures.

Policies such as these are demonstrably influencing company management, who cannot fail to be mindful that remuneration and even director renewal could be contingent on increasingly specific and ambitious demands. Asset managers are, however, moving at different speeds on engagement and voting, and do not systematically cooperate outside the existing investor initiatives and networks that agitate for specific outcomes and vote on their behalf. New initiatives by some asset managers to ask clients to vote their own assets can make sense for the most sophisticated clients, but also questions investors' capacity to apply pressure and limits the ability to bundle their influence. As a result, efforts to effect change are more fragmented than they could be, lowering the probability of achieving the outcomes responsible investors seek.

How did we get here? There is no doubt that the asset managers taking sustainability and other responsible investment themes seriously consider their ethical reputations to be competitive advantages. The more comprehensive engagement policies managers put in place to effect change, the more their credentials as leading responsible investors are burnished. There is nothing wrong with that — the more managers genuinely trying to wield their influence the right way, the better.

The problem is that engagement differs in approach, intensity and frequency from asset manager to asset manager, inevitably blunting the overall impact of their efforts. It is surely the case that more could be achieved if the leading investors with significant influence acted in concert. And would be a bit more transparent to create some public momentum. After all, on many key issues, engagement is the only tool capable of driving real change.

The reality is, of course, that we cannot feasibly expect a highly competitive commercial industry to suddenly become a benevolent club acting exclusively for the greater good. But the serious responsible investor players — the asset managers prepared to have difficult conversations with senior management teams and act with force if change is not forthcoming — could agree to take a more unified approach on the urgent structural challenges no single organization can hope to influence alone: climate change and biodiversity.

Inevitably, large-scale collaboration that goes beyond existing initiatives would not be straightforward, and suitable guidelines and frameworks would have to be put in place. Information sharing, for instance — a key component of any future effort to pool resources — would need to be tightly controlled. But why not create a system where the largest — and thus most influential — asset managers could, in exchange for sharing all their data on engagement efforts and management responses, be able to access everyone else's, held within a central database or information hub?

Engagement actions could be agreed between participants wherever possible to maximize pressure on management, forcing companies to confront a bigger and united group of investors demanding the same changes, commitments and improvements. If management failed to meet these demands, the group could vote against it as a collective. Ultimately, if voting did not result in the change desired, the group could threaten to divest as one, further focusing the minds of management while causing no relative disadvantage to the group's investors.

Clearly, this approach would be impractical to adopt on every issue. Engagements on shorter-term themes and objectives would remain the preserve of the individual asset managers, allowing each to differentiate according to their values. But ecosystem protection and global warming are surely long-term themes on which a consensus — and an aligned engagement and voting approach — can be agreed.

We know from our own increase in corporate governance engagements that companies are increasingly integrating ESG across their businesses, particularly in terms of climate. But we also know from emissions data and current pledges that it is far from guaranteed that the goals of the 2015 Paris Agreement will be met. We need companies to transition to pathways toward net-zero as quickly as possible. We need companies to demonstrate their willingness to change, to protect ecosystems and prevent deforestation, to help manage the carbon in the atmosphere and to stop our oceans and waterways from being clogged with plastic waste. More needs to be done on the biggest challenges facing our planet, and asset managers must work together to help make it happen. ■

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.

OPINION

OTHER VIEWS **CHRIS SCIBELLI**

Elephant in the room — relative-return traditional equity management

Judging from the subject matter of the multitude of energetically promoted investment-industry-related podcasts, webinars, white papers, editorials and conferences, there is little appetite among institutional investors today for a discussion of the continuing efficacy of long-only, benchmark-sensitive, traditional equity management.

The focus of these various mediums ranges from private equity to cryptocurrency, with hedge funds, ESG, direct lending, real assets and other alternatives scattered in between, but conspicuously, there is not a peep about public equities. Why? Because traditional equities are universally expected to deliver unusually paltry results.

Thus, allow us to step intrepidly into that void with the following observations and suggestions, which will perhaps explain the industry's apathy to date.

Broadly considered, long-only public market equity investing comes in two flavors. On one side is low fee, passively constructed index investing. On the other side is higher fee, "actively" managed investing. There are dozens of subsegments, but for purposes of this discussion those two approaches have been the two primary and commonly utilized avenues through which institutional investors have historically constructed, acquired, and implemented their public equity "book."

Importantly, despite their differing passive vs. active orientations, it must be noted that both approaches share the same doctrinaire relative return and benchmark sensitivity that will likely mute and nullify both of their functional utility as a producer of satisfactory investment results in the foreseeable future.

Consequently, investors should consider adapting their classical, status quo, long-only equity asset allocations with a third approach focused on generating satisfactory absolute returns, rather than relative returns.

At ACR Alpine Capital Research, we are not critics of passive investing, nor are we defenders of what has evolved to become "active" relative-return management. We do, however, provide a significantly different perspective on the implementation of long-only active equity management.

Passive indexing expressly promises the investor simple market exposure explicitly tied to an equity index. Nothing more. Nothing less. It has its place and utility in some investors' portfolios as low-cost beta, but it's not an all-weather panacea.

Classical active portfolio management, as typically defined by industry practitioners, is implicitly tethered to a market index. This tethering is not widely broadcast by industry practi-

Chris Scibelli, Los Angeles, is a managing director at ACR Alpine Capital Research.

tioners. Thus, relative-return-oriented active management has rightly earned considerable scorn for its inherent closet-indexing or benchmark-hugging tendencies.

The tethering of "active" management portfolios is dictated and enforced by the industry's clergy who have historically defined risk as "tracking error." Hence, the "active" manager who wants to preserve his good standing as an ongoing recipient of new business referrals from the clergy's "manager search" spigot, must obediently structure his "actively" managed portfolio so that its performance never deviates too egregiously (i.e., tracking error) from that of the underlying index to which his performance is evaluated.

The multidecade debate between adherents of low-cost indexing and disciples of "active" management has been somewhat superfluous. Why? The debate has raged against the backdrop of the persistent presence of a 40-year accommodative central bank tailwind that commenced during Ronald Reagan's first term.

Mixing metaphors, that tailwind was like a giant wave that began swelling during the late 1970s and into the early '80s. All of us who've

SEE **SCIBELLI** ON PAGE 21

DC ROUNDUP

Senate Finance Committee unanimously passes EARN bill

The Senate Finance Committee unanimously advanced the bipartisan Enhancing American Retirement Now Act, or EARN Act, on June 22. The EARN Act now joins the Senate Health, Education, Labor and Pensions Committee's companion bill, which advanced out of committee on June 14, to form the Senate's SECURE 2.0 package.

The House passed its own SECURE 2.0 bill in March in 414-5 vote.

Sen. Ron Wyden, D-Ore., chairman of the Finance Committee, highlighted four of the EARN act's more than 70 provisions during the committee meeting.

For the first time, a saver's tax credit would be deposited directly into a worker's IRA or 401(k) account rather than being included in any tax refund, and fully refundable, he said.

Second, individuals making student loan payments who are unable to contribute to their retirement will qualify to participate in their employer's retirement plan, Mr. Wyden said. The measure would permit an employer to make matching contributions to a 401(k) plan and other tax-preferred retirement plans on qualified student loan payments.

The act also will direct the Department of the Treasury to create a new standardized form that retirement plans can use to make rollovers for workers to bring their savings along when they change jobs.

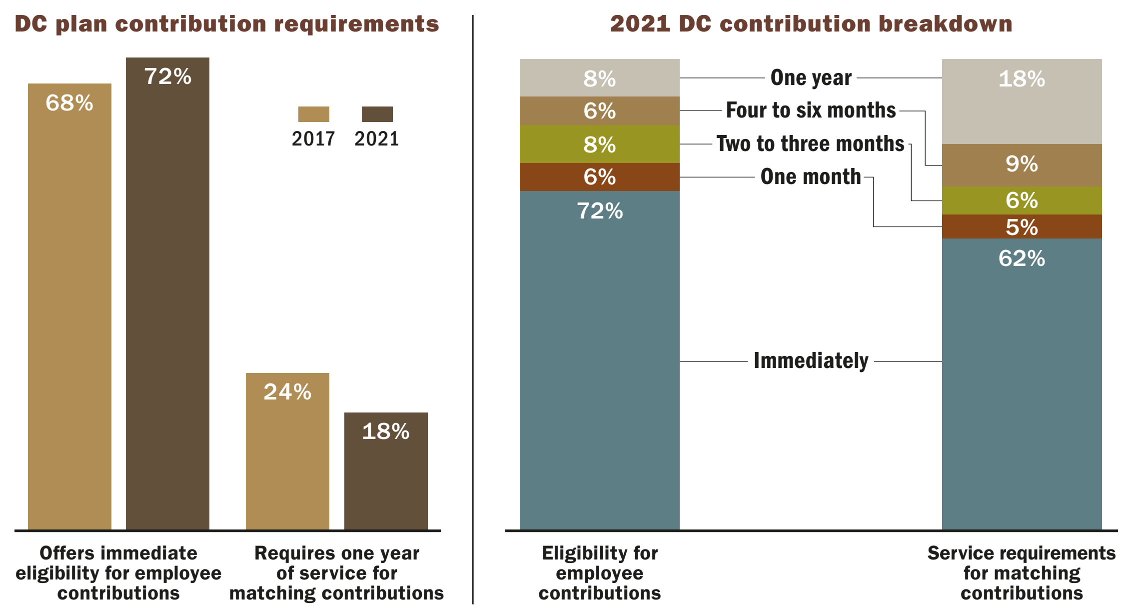
EARN will also permit all employers to allow workers to take distributions from their retirement accounts to pay for long-term care premiums. The distributions will still be taxable, but there will longer be a 10% penalty.

Senate leaders are expected to combine the EARN Act with the HELP Committee's Retirement Improvement and Savings Enhancement to Supplement Healthy Investments for the Nest Egg Act, or RISE & SHINE Act. If the Senate were to pass that combined bill, any differences with the House's SECURE 2.0 bill would have to be worked out before final passage and a completed bill could be sent to President Joe Biden to sign.

DC plan sponsors more participant-friendly

More defined contribution plans are allowing new employees to make contributions, and they're matching those contributions earlier, according to Vanguard Group's "How America Saves 2022" report.

In 2021, 72% of plans permitted employees to contribute immediately, vs. 68% in 2017. Over the same four years, the percentage of plan sponsors requiring one year of employment before making matching contributions dropped, to 18% from 24%. Of plans that allow matching contributions before one year of employment, 62% match contributions immediately.



Source: Vanguard Group Inc.

PepsiCo to add 6% to 8% non-matching contribution

PepsiCo Inc., Purchase, N.Y., will add non-matching contributions of 6% to 8% of eligible compensation for some hourly employees in its 401(k) plan.

The food and beverage company disclosed the change, which is effective Jan. 1, 2023, in its 11-K filing with the SEC on June 17. The change affects "certain eligible hourly employees who are participants in a Company-sponsored defined benefit plan," according to the 11-K filing.

The filing does not provide specific information whether this population of hourly employees currently receive any non-matching contributions. The filing says "in general," the company matches 50% of employee contributions ranging from 4% to 8% and that non-matching contributions up to a maximum of 9% are based solely on years of service.

Salaried employees are currently not eligible for any matching or non-matching contributions, until Dec. 31, 2025, when the salaried defined benefit plan will be frozen to future benefit accruals.

According to PepsiCo's most recent 10-K filing, the company reorganized its U.S. defined benefit plans in 2020, which included moving certain hourly participants to a newly created plan called the PepsiCo Employees Retirement Hourly Plan (Plan H), effective Jan. 1, 2021. The reorganization, according to the 10-K filing, "facilitated a more targeted investment strategy and provided additional flexibility in evaluating opportunities to reduce risk and volatility."

The filing did not say whether that would include potentially freezing or terminating that plan.

As of Dec. 31, the PepsiCo Savings Plan had $14.3 billion in assets, according to the new 11-K filing. As of that same date, U.S. defined benefit plan assets totaled $15.9 billion.

Rush University Medical Center settles ERISA suit

Chicago's Rush University Medical Center has agreed to settle an ERISA lawsuit by four former participants in a 403(b) plan who claimed medical center officials and fiduciaries mismanaged the plan in violation of ERISA.

Attorneys for the plaintiffs and the defendants filed a joint notice on June 27 in a U.S. District Court in Chicago that they had agreed in principle to settle the case. Terms were not disclosed. The notice said details will be made available to the court on July 29.

The former participants sued in January, accusing the medical center and fiduciaries of violating ERISA by charging "excessive" record-keeping and administrative fees and by offering an actively managed target-date series instead of a similar index-based target-date series.

The defendants "failed to monitor the average expense ratios charged by investment managers to similarly sized plans," the lawsuit said. "Participants were offered an exceedingly expensive menu of investment options, clearly demonstrating that defendants neglected to benchmark the cost of the plan lineup or consider ways in which to lessen the fee burden on participants during the majority of the pertinent period."

Although the defendants replaced the Fidelity target-date series in 2019 with an index-based Vanguard target-date series, this decision "does not excuse their failure to do so several years prior," the lawsuit said.

The Rush University Medical Center 403(b) Retirement Savings Plan, Chicago, had assets of $1.2 billion as of Dec. 31, 2020.

Higher fees in rollover IRAs could hurt investors

Investors who roll their workplace retirement savings into individual retirement accounts could lose thousands of dollars in savings over time due to differences in fees between institutional and retail mutual fund share classes, according to a new study released June 30 by The Pew Charitable Trusts.

"Even small disparities in fees can lead to big reductions in savings," said John Scott, director of Pew's retirement savings project, during a media briefing about the study.

The study calculated the differences between median institutional and retail share class expense ratios across all mutual funds that offered at least one institutional share and at least one retail share in 2019. Hybrid mutual funds, the most common fund type used in retirement plans, posted the smallest difference in median expenses between retail and institutional shares, at 0.19 percentage points. Yet that small difference can add up over time, the study showed.

Applying the 0.19-percentage-point difference to the entire $516.7 billion that investors rolled into traditional IRAs from their employer retirement plans in 2018, the study calculated it cost investors more than $980 million in additional fees in a single year alone.

"Over 25 years, savings could be reduced by an aggregate of $45.5 billion," Mr. Scott said.

Equity and bond mutual funds posted wider median expense ratio differences, at 0.34 and 0.31, respectively.

Mr. Scott pointed out that the rollovers themselves aren't the problem, but rather investors' lack of understanding of the fees and how they impact their savings over time, saying that only 25% of retirement plan participants read and understand retirement account fee disclosures.

"There are lots of situations in which a rollover would make sense," he said, explaining that it is possible to have funds with high fees in an employer plan.

"The rollover is not the problem. It's really understanding what the fees are when you make that rollover," he said.

The study looked at 3,847 mutual funds offered by 237 fund management companies using 2019 data from the Survivor-Bias-Free U.S. Mutual Fund database.

Ex-employees sue MITRE for alleged ERISA violations

Six former employees of MITRE Corp. sued the not-for-profit operator of federally funded research and development centers for alleged ERISA violations in two retirement plans run by the organization.

"Defendants failed to adequately monitor the plans' administrative and recordkeeping expenses," said the June 22 complaint filed in a U.S. District Court in Boston against the organization and fiduciaries of MITRE's 403(b) and 401(a) plans.

The complaint attacked the plans' use of two record keepers.

"It's difficult to understand how the plans could take advantage of its economies of scale to get the best possible record-keeping fees when it continues to utilize two record keepers, a job which is traditionally handled by only one," the complaint said.

The lawsuit also argued that a number of investments in both plans charged excessive fees due to the plans' use of revenue sharing. "Although utilizing a revenue sharing approach is not per se imprudent, unchecked, it is devastating for plan participants," wrote the plaintiffs, who are seeking class-action status.

A representative of MITRE did not respond to a request for comment.

The MITRE Corp. Tax Sheltered Annuity Plan had assets of $4.55 billion and the MITRE Corp. Qualified Retirement Plan had assets of $2.51 billion, both as of Dec. 31, 2020, according to the latest Form 5500 reports on the Bedford, Mass.-based plans.

Federal judge dismisses ERISA case against Olin

A federal District Court judge in St. Louis dismissed a complaint against Olin Corp. and 401(k) plan fiduciaries by two plan participants who alleged ERISA violations for record-keeping expenses and selection of investment options.

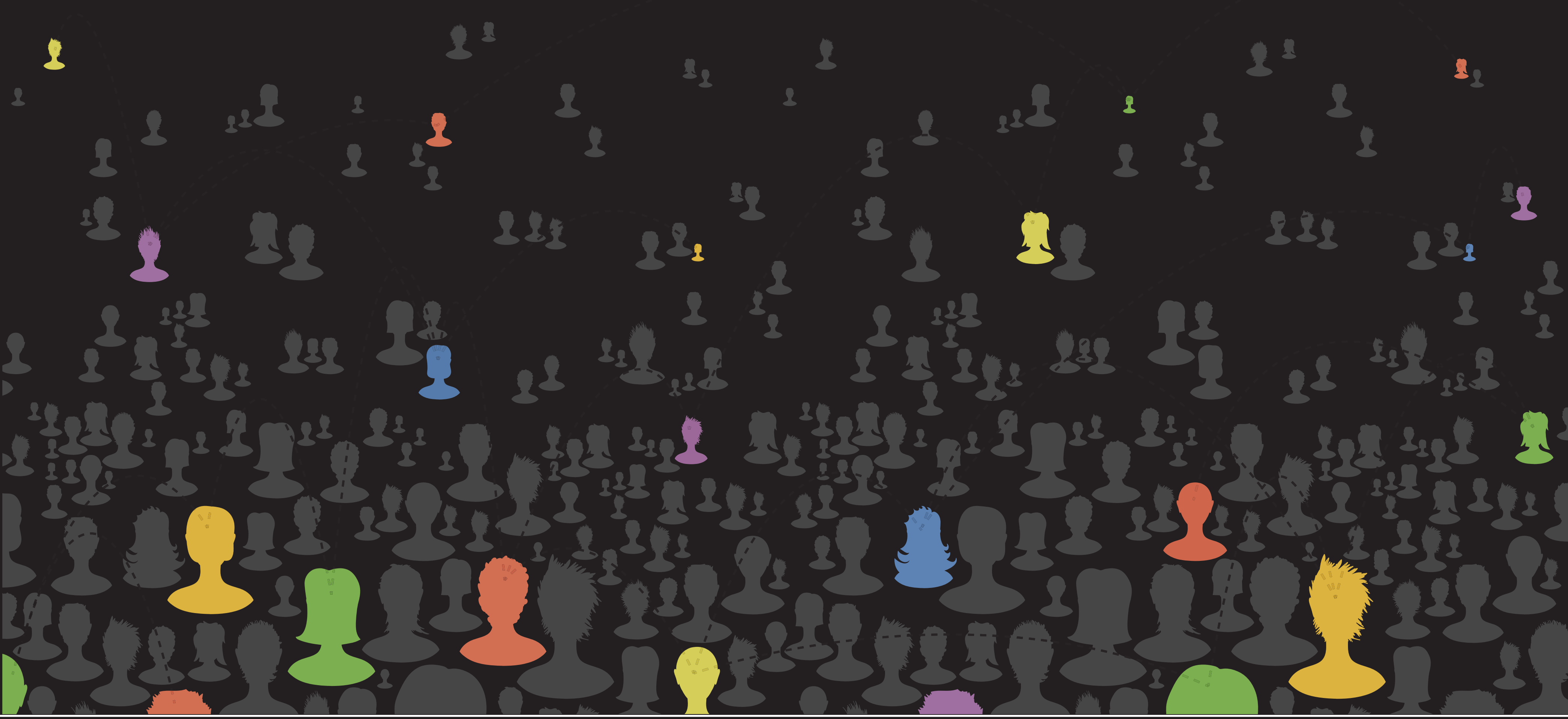
"The allegations in the complaint do not establish that the (Olin) investment committee allowed (participants) to pay excessive fees," U.S. District Court Judge Stephen R. Clark wrote on June 21 in Malika Riley and Takeeya S. Reliford vs. Olin Corp. et al. "The court concludes that Riley and Reliford do not state a breach-of-fiduciary-duty claim under an excessive recordkeeping-fees theory," Mr. Clark wrote.

The judge also rejected the plaintiffs' argument that the plan should have offered collective trust versions of certain investments because they were cheaper than the mutual fund versions. "Riley and Reliford's complaint lacks any comparative allegations regarding plan investments, asset allocations, and the like," Mr. Clark wrote.

The plaintiffs' citing lower expense ratios for CITs vs. mutual funds wasn't enough proof of an ERISA violation, he said.

The plaintiffs, who were seeking class-action status for their complaint, filed suit in November.

The Olin Corp. Contributing Employee Ownership Plan, Clayton, Mo., had $1 billion in assets as of Dec. 31, 2020.



INVESTMENT OUTSOURCING

Managers see demand for innovation

OCIO firms respond to clients pushing for improved portfolio diversification with more alts, customization

By CHRISTINE WILLIAMSON

In response to strong client demand, outsourced CIO managers are developing new investment strategies or enhancing existing approaches to improve diversification for defined benefit and defined contribution plans and other asset owners.

Among the investment innovations for OCIO portfolios, executives of outsourcing firms pointed to their addition of more alternative investment strategies to pump up returns; commingled investment trust funds for use in both defined benefit and defined contribution portfolios; adding annuities within defined contribution plan OCIO portfolios and target-date funds; and partnering with money managers to create customized funds for client portfolios.

OCIO managers said they have seen very healthy interest and inflows in their strategies amid a tough investment environment in 2022 from all sizes of corporate defined benefit and defined contribution plans, and generally smaller public defined benefit plans, endowments, foundations and sovereign wealth funds.

When it comes to innovation, Wilshire Advisors LLC, Santa Monica, Calif., has a long legacy of building customized investment portfolios for investors, but launched the firm's first collective investment trust funds in 2021, said Ryan L. Lennie, Pittsburgh-based managing director, portfolio management, in an interview.

Users of the commingled funds include corporate DB and DC plans as well as public pension plans, but the funds also are used by Wilshire in building OCIO portfolios.

"We can build OCIO portfolios across the spectrum of CIT funds," Mr. Lennie said, adding that Wilshire is also adding alternative investment CIT funds with the recent launch of a long-credit fund. A diversified real assets CIT including real estate, commodities and global infrastructure will go live in the third quarter.

Wilshire ranked 23rd in worldwide institutional ranking with OCIO assets managed with full/partial discretion totaling $23.1 billion as of March 31, up 13.2% from the same date in 2021.

Interest from different investors

As for asset owners' interest in OCIO solutions," there's no question that we are seeing more demand for OCIO assignments from all sizes of investors from very small to the larger end of the scale," said Suzanne Bernard, OCIO not-for-profit lead at Northern Trust Asset Management, Chicago, in an interview.

Ms. Bernard said Northern Trust has seen more interest in OCIO assignments from asset owners with large allocations than in the past.

Ms. Bernard said some of the demand is from "second generation" CIOs who are interested in rebidding their OCIO providers and from defined contribution plans.

BIG AND SMALL: Suzanne Bernard said interest in OCIO isn't limited to any particular allocation size.

She added that endowments, foundations and other non-profit organizations increasingly are turning to turnkey solutions that include private equity, real estate, infrastructure and other alternative investments as well as traditional strategies, noting that these portfolios "have performed exceptionally well in current markets."

Northern Trust Asset Management managed $98.7 billion in OCIO worldwide institutional assets managed with full/partial discretion as of March 31, down 1.7% compared with the prior year, according to *Pensions & Investments* data, placing it as the ninth-largest OCIO manager.

BlackRock Inc., New York, also expects more large asset owners to move to OCIO investment arrangements, said Ryan Marshall, managing director and co-head of the New York-based firm's multiasset strategies and solutions unit, in an interview.

"We will see some of the largest OCIO mandates joining our platform in 2022," to some extent because "OCIO arrangements are very cost competitive compared to an in-house investment team," he said, noting that he could not identify potential investors or provide details about cost.

One of the problems for many corporate DB plans is that for in-house investment teams focusing on the plan's funded status, handling investments in a volatile market is challenging, which is leading to employees leaving sooner than expected, and these experienced employees are not easy to replace, Mr. Marshall said.

One of BlackRock's innovations is to bundle an annuity offering in its LifePath Paycheck target-date offering, Mr. Marshall said, noting that it may be attractive to retirement plan participants. He described the LifePath target-date DC plan series as "a different expression of OCIO."

BlackRock ranked fourth on *P&I*'s ranking of OCIO managers by worldwide institutional assets under management with full/partial discretion with assets of $184.5 billion as of March 31, up 16.3% from the prior year.

Broader real asset portfolios

A focus on adding more diversification to

Investment outsourcing at a glance

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

	2022 data	One-year change	Five-year change
Total worldwide outsourced assets*	$3,053,925	6.0%	71.5%
Worldwide outsourced AUM**	$2,656,622	5.4%	86.1%
Managed with full discretion	$1,866,089	-7.0%	84.5%
Internally managed	$519,473	-14.3%	62.4%
Managed under ESG principles	$392,243	-8.4%	N/A
Managed by WMDV-owned managers	$34,705	-28.2%	N/A
Total U.S.-client outsourced assets*	$2,189,462	9.4%	74.6%
U.S.-client outsourced AUM**	$1,862,916	9.8%	92.5%
Managed with full discretion	$1,309,455	-0.3%	112.1%
Internally managed	$269,393	-13.9%	37.4%
Managed under ESG principles	$199,475	-10.3%	N/A
Managed by WMDV-owned managers	$34,324	39.0%	N/A
Total number of worldwide outsourcing clients	33,221	6.4%	102.3%
U.S. outsourcing clients	29,937	6.3%	110.6%
Number of U.S. outsourcing clients by type:			
Endowment	2,951	-17.3%	343.8%
Foundation	8,840	-5.8%	825.7%
Defined benefit	2,555	19.0%	80.9%
Defined contribution	14,096	25.2%	782.7%
U.S.-client outsourced AUM by type:**			
Endowment	$122,378	5.1%	N/A
Foundation	$147,554	4.5%	N/A
Defined benefit	$594,405	5.0%	N/A
Defined contribution	$260,322	4.3%	N/A

*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	$370,168
2	Goldman Sachs Group	$239,932
3	Aon	$204,683
4	BlackRock	$184,528
5	State Street Global	$181,704
6	WTW Investment Services	$181,071
7	Russell Investments	$175,913
8	SEI Investments	$100,691
9	Northern Trust	$98,733
10	J.P. Morgan Asset & Wealth	$83,919
11	Alan Biller and Associates	$69,750
12	Vanguard Group	$65,811
13	CAPTRUST Financial	$63,175
14	Morgan Stanley	$62,759
15	NEPC	$61,741
16	Cambridge Associates	$51,748
17	Aegon Asset Mgmt.	$41,584
18	Bank of America	$38,889
19	PNC Financial	$31,484
20	Principal	$27,590
21	Strategic Investment Group	$26,211
22	Meketa Investment Group	$25,576
23	Wilshire Advisors	$23,100
24	PFM Asset Mgmt.	$18,859
25	Sterling Capital	$16,708
26	Agility	$15,148
27	Fiducient Advisors*	$14,700
28	Commonfund	$14,661
29	Highland Associates	$14,402
30	Marquette Associates	$13,951
31	CornerStone Partners	$12,270
32	Pentegra Investors	$12,037
33	Hirtle, Callaghan	$12,000
34	Callan	$11,752
35	Segal Marco Advisors	$11,107
36	Global Endowment Mgmt.	$10,863
37	Fund Evaluation Group*	$9,845
38	Commerce Trust	$8,617
39	TIFF Advisory Services	$7,812
40	Conrad Siegel	$7,303
41	Angeles Investment Advisors	$6,052
42	Verus	$5,133
43	Gallagher Fiduciary*	$4,878
44	Prime Buchholz	$2,906

defined contribution target-date portfolios and other DC plan OCIO portfolios also led WTW Investment Services, New York, "to begin to build a multiasset fund with a broader range of real asset strategies beyond real estate investment trusts, including alternative credit and infrastructure," said Jonathan Pliner, senior director of investments and U.S. head of delegated portfolio management, in an interview.

The WTW team also will focus on investment beyond retail real estate properties to include senior, student and single-family housing, life sciences properties and essential data infrastructure in the fund, he said.

Another innovation for the OCIO team is the development of partnerships with individual money managers to create customized strategies for WTW, Mr. Pliner said.


DC ADD: Ryan Marshall cited a bundled annuity in BlackRock's LifePath target-date series as one of the firm's innovations.

"When we're looking at strategies we're interested in, increasingly, we're partnering with money managers to be sure that we get the specific exposure we want" in various asset classes, he said.

WTW Investment Services held the sixth position in *P&I*'s ranking of OCIO managers by worldwide institutional assets under management with full/partial discretion, with AUM of $181.1 billion as of March 31, an increase of 7.9% from the prior year.

Boston-based State Street Global Advisors is increasingly bringing together public and private market strategies to its mostly customized defined contribution plan target-date OCIO practice, said Daniel Farley, chief investment officer of the investment solutions group, in an interview. He declined to provide specifics.

He noted that like BlackRock, SSGA now also offers both a deferred annuity and an immediate fixed index annuity in OCIO target-date defined contribution plans.

SSGA managed $181.7 billion as of March 31, up 0.3% from a year earlier and the fifth largest OCIO manager ranked by worldwide institutional assets.

Sources said there has been somewhat less innovation in OCIO portfolio investments for corporate defined benefit plans because many are using liability-driven approaches.

Mr. Farley said the firm's OCIO team crafted active strategic allocation overlays for some corporate DB plans using LDI, which were "very important" because they underweighted equity and fixed-income allocations, added hedge funds for diversification and commodities and infrastructure for returns over the past six to seven months.

Other OCIO managers also are seeing interest from corporate defined benefit plan sponsors seeking OCIO LDI arrangements.

"We're seeing very strong demand from corporate defined benefit plans that continue to move from open to closed to frozen," said Peter Corippo, managing director for retirement fiduciary solutions for Russell Investments, Seattle, in an interview.

Because there is an increased need for corporate DB plans for better governance, strong staffing levels and additional technology to track funded status, Mr. Corippo predicts that more corporate defined benefit plans will move to an OCIO solution.

Russell Investments managed $175.9 billion in worldwide institutional AUM with full/partial discretion as of March 31, down 4.3% from a year earlier. ■

OCIO managers expand ESG, DEI prowess to meet requests

By **CHRISTINE WILLIAMSON** and **PALASH GHOSH**


WIDESPREAD INTEREST: Daniel Farley said ESG and DEI 'are relevant across the board' for organizations.

Executives of OCIO managers said their existing and prospective clients are pushing them to include more diverse money managers in their portfolios as well as firms that are managing strategies based on environmental, social and governance, and diversity, equity and inclusion principles.

"These topics are relevant across the board. Organizations are wondering how they can incorporate both ESG and DEI into their investment portfolios. Investment committees need to figure out how to do ESG and DEI," said Daniel Farley, executive vice president and chief investment officer of the investment solution group of Boston-based State Street Global Advisors, in an interview.

SSGA assists clients in incorporating both areas using internally and externally managed strategies, Mr. Farley said.

SSGA managed $15.9 billion in ESG strategies and invested $3.1 billion with women-, minority-, or disabled-owned managers within OCIO approaches as of March 31, *Pensions & Investments* survey data showed.

SSGA's worldwide institutional OCIO assets managed with full/partial discretion totaled $181.7 billion as of March 31, an increase of 0.3% compared to the same date a year earlier.

For asset owners, DEI and ESG "both are risk factors that they need to pay more attention to" given climate change and the need for diversity within money management companies, said Suzanne Bernard, OCIO not-for-profit lead at Northern Trust Asset Management, Chicago.

Rating asset management firms on both issues is a big part of Northern Trust's manager assessment, especially when it comes to looking beyond diversity of company ownership to gauge diversity throughout the company, she stressed.

Northern Trust Asset Management had $3.1 billion in ESG strategies managed for worldwide institutional investors and $5.5 billion with diverse managers in OCIO mandates as of March 31. The unit's worldwide OCIO institutional assets under management

SEE **ESG & DEI** ON PAGE 17

Rank	Manager	Assets
45	**Spider Mgmt.**	$2,793
46	**Verger Capital**	$2,388
47	**Canterbury Consulting**	$2,224
48	**River & Mercantile Solutions**	$1,950
49	**Spruceview Capital**	$1,586
50	**Sellwood Consulting**	$1,059
51	**Discretionary Mgmt. Svcs.**	$980
52	**LCG Associates**	$609
53	**Bivium Capital**	$554
54	**Gifford Fong Associates**	$547
55	**CIBC Asset Mgmt.**	$168
	TOTAL	**$2,656,622**

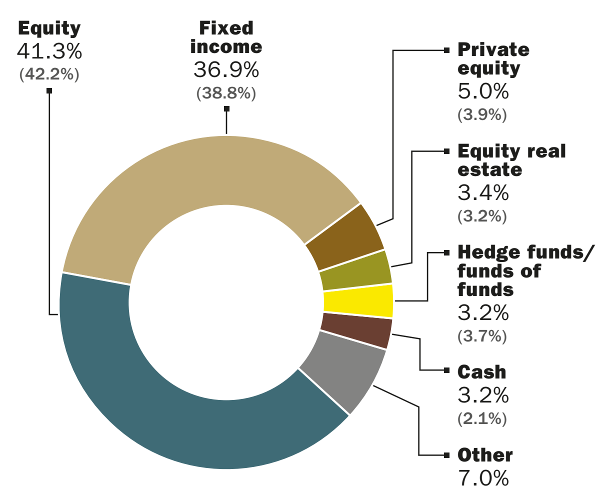
*As of Dec. 31.

Growth of institutional outsourcing

Assets are in millions as of March 31.

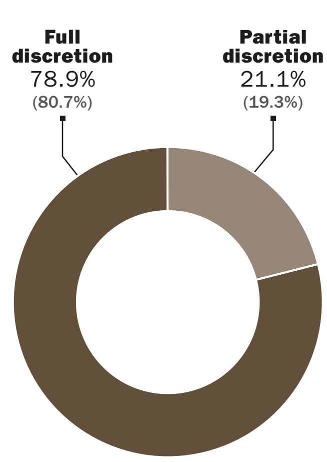
Outsourcing manager asset mix

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



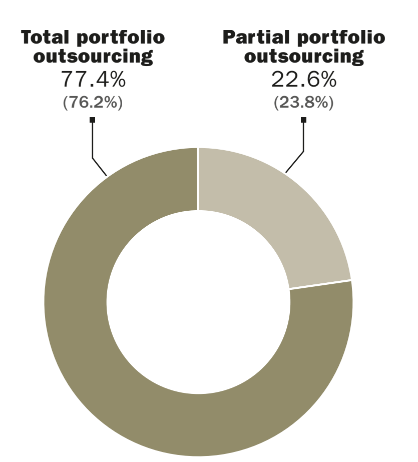
Outsourced assets by level of discretion

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.



EXCESS RETURN: Stephanie Lynch said inflation-resistant assets such as commodities and real estate are becoming more prominent in portfolios amid volatility in stock and bond markets.

More volatility, alts underscore the need for expertise in OCIO

Market volatility and the rising popularity of alternative assets will play major roles in the future of OCIO arrangements, industry experts say.

Michael Cagnina, Oaks, Pa.-based vice president and managing director of the institutional group at SEI Investments Co., said stock and bond markets had performed well for about a decade until this year, a period of extreme volatility. "Thus, many of the newer OCIO firms have only known bull markets and low interest rates," Mr. Cagnina said. "As we have entered a more difficult market environment, OCIOs with longer track records and more experience — those that have navigated both bull and bear markets — might be better suited to cope with the current headwinds."

SEI reported $100.7 billion in worldwide outsourced institutional AUM with full or partial discretion as of March 31, according to *Pensions & Investments* data.

With respect to this year's market volatility, OCIOs have the expertise to weather such storms — like quickly rebalancing and reallocating in a market sell-off, noted William Jarvis, the New York-based head of strategic thought leadership in Bank of America's philanthropic solutions group, which includes OCIO. The investing climate of 2022 presents a stark contrast to the era of low interest rates and easy money of the past decade or so, he said, suggesting clients likely need more assistance in managing assets in an increasingly difficult market environment.

Mr. Jarvis also pointed out that OCIOs are increasingly allocating money to alternative assets like private equity, commodities and real estate, as their clients seek "prudent diversification" and risk controls in their portfolios.

Mr. Jarvis noted that investors need exposure to private markets and other asset classes for such diversification, beyond just stocks and bonds.

Bank of America reported $38.9 billion in OCIO AUM for worldwide institutional as of March 31, up 9.9% from the prior year.

Stephanie Lynch, the Charlotte, N.C.-based co-founder and partner of Global Endowment Management, said that given the volatility in stock and bond markets and rising inflation, some alternative asset classes, such as commodities and real estate, have become more prominent in her portfolios.

"These are inflation-resistant securities that our clients want to generate excess return," she said.

Global Endowment Management had about $10.3 billion in assets invested under ESG principles as of March 31. The firm had total OCIO assets of about $10.9 billion in OCIO assets as of March 31, up slightly from $10.8 billion a year earlier.

Moreover, Jim Scheinberg, Marina del Rey, Calif.-based managing partner, founder and chief investment officer at OCIO search consulting firm North Pier Search Consulting, noted that there is increased demand from some asset owners — especially endowments and foundations — for expertise in alternative assets, private equity, infrastructure and natural resources, as they are likely to provide higher returns than public stocks and bonds.

However, picking from a diverse array of alternative assets, like private equity, requires skill, said Timothy T. Yates, Wilton, Conn.-based president and CEO of Commonfund Asset Management.

"There are somewhere around 4,500 to 5,000 PE firms in the U.S. alone and picking the perfect candidates from that large pool is a pretty daunting task," Mr. Yates said. "But OCIOs have the staffing to pick a submanager for this asset class."

According to data compiled by *P&I*, Commonfund had about $14.7 billion in worldwide outsourced institutional AUM with full or partial discretion as of March 31.

As returns for bonds and stocks are expected to be "muted" amid rising inflation and tighter monetary policy, demand by asset owners for alternatives will only keep growing in the coming years, Mr. Yates predicted.

— PALASH GHOSH

Outsourced

CONTINUED FROM PAGE 1

SEI had $100.7 billion in worldwide outsourced institutional AUM with full or partial discretion as of March 31, making it the eighth-largest OCIO manager, down 5.3% from $106.3 billion in the prior survey.

Kane Brenan, Radnor, Pa.-based CEO of TIFF Advisory Services Inc., a subsidiary of TIFF Investment Management, agrees that one of the principal reasons behind the growing popularity of OCIOs is that more asset owners have realized using outside experts can lead to better investment outcomes and improved governance, particularly important right now given the current state of the markets and the overall economy. TIFF Advisory managed $7.81 billion in outsourced assets as of March 31, up 5% from a year earlier.

"Organizations have to focus on the core of their businesses, and many simply do not have the time nor expertise to focus on their investments," he said. "And as we now have entered a period of extreme volatility in the markets, in conjunction with rising demand for higher-returning alternative assets, I expect the demand for OCIO services will accelerate."

Volatile markets rattled by rising inflation as well as interest rates can test even the largest asset owners.

The S&P 500 Total Return index was up 15.6% in the year ended March 31; AlphaNasdaq OCIO Broad Market index, up 3.3%; and the Bloomberg U.S. Aggregate Bond index, down 4.2%. That's in sharp contrast with the prior year, when the S&P 500 Total Return index was up 56.4% in the year ended March 31, the AlphaNasdaq OCIO Broad Market index was up 30.7% and Bloomberg U.S. Aggregate Bond index was up 0.7%.

One OCIO cited another factor contributing to the rise of industry: the Great Resignation whereby millions of Americans either quit their jobs or retired due to the pandemic.

SIGNIFICANT GROWTH: Jim Scheinberg said over the past decade mandates for OCIO searches have increased to more than $2 billion from about $100 million.

"This phenomenon has also hit asset owners and institutions," said Samantha Davidson, New York-based senior partner and U.S. leader of Mercer LLC's OCIO business. "Key investment staff and board committee members have either left or retired and this has placed a greater burden on entities which manage assets. They find it increasingly more viable to shift asset management to OCIOs amid all this confusion and uncertainty."

The Great Resignation, she added, has been particularly challenging for human resource teams, prompting more defined contribution plans to seek out OCIOs.

According to data compiled by P&I, Mercer had $370.2 billion in worldwide institutional outsourced AUM with full or partial discretion as of March 31, placing it first among OCIO firms, up 0.9% from a year earlier. Mercer also ranked No. 1 among OCIO managers of DC assets, with $72.3 billion.

Asset owners weigh in

From one asset owner's perspective, help with diversifying investments and greater investment expertise proved the selling point in making the jump to an OCIO.

Lawrence Bernert, board chairman of the $1.5 billion Norfolk (Va.) Employees' Retirement System, recently completed a search for an OCIO to run the pension fund's assets.

He declined to name the firm selected, saying a contract had not yet been signed.

"The retirement plan had been investing in a balanced model index portfolio, both stocks and bonds," Mr. Bernert said. "But we recently decided to take the OCIO route to manage our assets and retained a consultant to help us."

One of the reasons for the shift, he noted, was that the investment committee board wanted a broader diversification in its holdings, including allocations in higher-returning alternative assets. The committee decided that an OCIO with expertise in this arena would be better suited to manage and oversee.

Mr. Bernert said by email that currently "roughly 15% of the portfolio is split evenly between MLPs (master limited partnerships) and real estate."

Fees were an important consideration during the search but not the dominant factor, he noted. Expertise in a broad array of investment assets and a good track record of performance were important considerations. "Fees actually were not a major part of our discussions with OCIO firms, and we were not necessarily committed to hiring the OCIO with the lowest fees," he added.

Mr. Bernert is also a portfolio manager of Wilbanks Smith & Thomas Asset Management LLC. Wilbanks Smith has no business relationship with the Norfolk pension fund.

Michael Hradec, vice president, deputy director of business services at Savannah River Nuclear Solutions, Aiken, S.C., said in an interview that its $4.1 billion pension plan transitioned to an OCIO arrangement with Aon Investments USA Inc. in October 2021 after managing assets via an in-house investment committee using 3(21) advisers and fund managers.

"One of the major reasons we decided to hire an OCIO was because our committee would meet quarterly and our process would not allow tactical changes with agility," said Mr. Hradec, who is chairman of the company's savings and pension administrative committee. "That led us to miss out on opportunities with shifts in the markets and the overall economy."

Mr. Hradec cited the dramatic emergence of the COVID-19 pandemic around March 2020 as one example of the need for an OCIO.

"When the market adjusted — we could not move quickly enough in our fixed-income portfolio to take advantage of the gaps in Treasury yields and credit spreads and missed out on this opportunity for additional returns and reduced interest rate hedge," he said. "We expect to capture those opportunities with OCIO."

While fee and cost structure were definitely key factors in determining which OCIO to hire, Mr. Hradec added that the most important considerations for the committee were the OCIO's track record of risk-adjusted returns as well as the "quality of personnel" at the OCIO.

Mandates growing

As OCIO business grows, so are the size of investor mandates.

Jim Scheinberg, the Marina del Rey, Calif.-based founder, managing partner and chief investment officer at OCIO search consulting firm North Pier Search Consulting, said in an interview that when his company began running OCIO searches about 10 years ago, he saw mandates in the $100 million to $400 million range. Those now routinely exceed $1 billion and $2 billion. Over that time, Mr. Scheinberg estimates, OCIO industry assets have about quintupled, suggesting rapid adoption of OCIOs by a wide array of asset owners.

"We have seen a large increase in OCIO searches from most types of asset owners. Foundations, both public as well as those of private families, continue to move in that direction. Most searches we conduct in that space are from $100 million to $1 billion, though lately we are seeing more requests as small as $25 million."

Corporate pension funds have been very active, Mr. Scheinberg indicated, since regulations, notably ERISA, mandate that plan sponsors regularly evaluate their defined benefit plan consultants and OCIOs. "Those cases for us tend to start around $200 million and go well into the multibillions," he said.

Lately, he added, his firm is seeing more searches from the public funds space as well as some Taft-Hartley pension plans. "I suspect we will see that area start moving more and more to delegated mandates in the coming years, especially with the recent market volatility," he added.

For defined contribution, Mr. Scheinberg noted, the sky is the limit. "We are working on one project right now well in excess of $10 billion, and we just requested to bid on another for a plan three times that size," he said.

The OCIO industry experienced a mega deal

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	Cambridge Associates	$394,902		$51,748
2	Mercer	$370,168	1,864	$370,168
3	Goldman Sachs Group	$239,932		$239,932
4	Aon	$204,683	550	$204,683
5	BlackRock	$184,528	116	$184,528
6	State Street Global	$181,704	278	$181,704
7	WTW Investment Services	$181,071	444	$181,071
8	Russell Investments	$175,913	374	$175,913
9	Northern Trust	$140,474	491	$98,733
10	SEI Investments	$100,691	516	$100,691
11	J.P. Morgan Asset & Wealth	$91,178	1,294	$83,919
12	Alan Biller and Associates	$69,750	38	$69,750
13	Vanguard Group	$65,811	1,250	$65,811
14	CAPTRUST Financial	$63,175	1,492	$63,175
15	Morgan Stanley	$62,759	364	$62,759
16	NEPC	$61,741	76	$61,741
17	Aegon Asset Mgmt.	$41,584	153	$41,584
18	Bank of America	$38,889	4,896	$38,889
19	PNC Financial	$31,484	4,232	$31,484
20	Principal	$27,590	660	$27,590
21	Strategic Investment Group	$26,211	28	$26,211
22	Meketa Investment Group	$25,576	66	$25,576
23	Wilshire Advisors	$23,100	10,778	$23,100
24	PFM Asset Mgmt.	$18,859	249	$18,859
25	Sterling Capital	$16,708	54	$16,708

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	$285,029	77%	23%
2	BlackRock	$162,385	88%	12%
3	Aon	$153,512	75%	25%
4	State Street Global	$114,474	63%	37%
5	WTW Investment Services	$112,264	62%	38%
6	Russell Investments	$105,548	60%	40%
7	Northern Trust	$98,733	100%	
8	J.P. Morgan Asset & Wealth	$83,919	100%	
9	CAPTRUST Financial	$63,175	100%	
10	Morgan Stanley	$62,759	100%	
11	Alan Biller and Associates	$54,405	78%	22%
12	Vanguard Group	$51,991	79%	21%
13	NEPC	$51,060	83%	17%
14	SEI Investments	$42,290	42%	58%
15	Bank of America	$37,722	97%	3%
16	Aegon Asset Mgmt.	$31,812	77%	23%
17	PNC Financial	$30,354	96%	4%
18	Principal	$27,590	100%	
19	Strategic Investment Group	$26,211	100%	
20	Meketa Investment Group	$25,576	100%	
21	Wilshire Advisors	$23,100	100%	
22	PFM Asset Mgmt.	$18,859	100%	
23	Sterling Capital	$16,624	99%	1%
24	Agility	$15,148	100%	
25	Highland Associates	$14,402	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	Assets	Mandates
1	Russell Investments	$175,913	
2	J.P. Morgan Asset & Wealth	$62,137	
3	Aegon Asset Mgmt.	$37,557	$3,633
4	NEPC	$23,413	$7,200
5	State Street Global	$15,889	$1,664
6	Commonfund	$14,661	$148
7	Wilshire Advisors	$13,183	$13,183
8	Global Endowment Mgmt.	$10,231	$2,244
9	Marquette Associates	$9,922	$1,250
10	Agility	$7,113	$1,542

The largest managers of outsourced assets invested with WMDV-owned firms

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

Rank	Manager	Assets	Number of firms
1	Northern Trust	$5,544	21
2	Agility	$3,752	28
3	BlackRock*	$3,600	7
4	NEPC	$3,280	26
5	State Street Global	$3,147	6
6	Strategic Invest. Group	$2,835	31
7	Global Endowment Mgmt.	$2,265	51
8	Marquette Associates	$1,897	17
9	PFM Asset Mgmt.	$1,421	8
10	TIFF Advisory Services	$1,238	28

*Excludes allocations to WMDV-owned alts managers.

about a year ago. Citing intensified regulation, rising operational costs and increased investment complexity, British Airways said in 2021 that it had signed BlackRock Inc. as outsourced CIO. At the time, the airline's two plans held £21.5 billion ($26.4 billion) in assets.

The plans had been managed by the in-house provider British Airways Pension Investment Management Ltd. Some internal staff members joined BlackRock as part of the deal.

Experts, including Greg Calnon, the New York-based global head of the multiasset solutions group within Goldman Sachs Asset Management, said OCIO mandates are likely to keep getting bigger, though not necessarily as king-sized as the British Airlines deal.

In late April, GSAM was appointed by Canadian business jet-maker Bombardier Inc. to provide investment management services for $5.4 billion of its pension and insurance assets.

GSAM managed $239.93 billion in full or partial discretionary OCIO assets, ranking second among U.S. firms, a 15.5% jump from the year-ago figure of $207.7 billion.

Ryan Marshall, co-head of multiasset strategies and solutions at BlackRock, said in an email: "We continue to see demand for outsourcing from all regions and client segments, and in 2022 we expect to onboard some of our largest mandates ever. Over the past year, we've added significant resources across investments, research, operations and technology to support recent and anticipated future growth."

BlackRock managed $184.5 billion in full or partial discretionary OCIO assets as of March 31, ranking fourth among U.S. firms, a 16.3% jump for the year.

Fee pressures rise

But as demand and competition increase, fees are coming under pressure, OCIO managers noted.

Not only can OCIOs speedily deploy capital, but as these firms become larger — and gain significant economies of scale — they can negotiate lower sub-manager fees for asset owner clients, making their service even more appealing, North Pier's Mr. Scheinberg said.

While Mercer's Ms. Davidson acknowledged that fees charged by OCIOs have been falling in recent years, she feels that at some point, they will have to stabilize.

"This decline in fees is not unique to OCIOs. It has been seen across the asset management industry," she said. "But at some point, the decline has to end or there might be a fall-off in the quality of service. Thus, there's a trade-off here."

She also noted that management fees compressed during the recent 12-year bull run where the top performance came from U.S. equities — that in itself made passive investing popular and hurt fees earned by active managers. "Now that we are in the tail end of that bull run and have entered a very difficult market climate, active investing — and fees — should likely stabilize," Ms. Davidson said.

TIFF's Mr. Brenan agreed. "It's the value proposition," he said. "You get what you pay for and if you want high-quality asset management services, you need to pay a sufficient fee. I think the overall trend of falling fees has stopped. Clients have moved from making a selection based on simple fees to more of a value decision based on investment results and service and headline fees." ■

ESG & DEI

CONTINUED FROM PAGE 15

with full/partial discretion totaled $98.7 billion, down 1.7% compared to March 31 a year earlier, according to *P&I* survey data.

ESG assets increase

Boston-based NEPC LLC had high demand in 2021 for OCIO investment strategies, which continued in the first quarter of 2022, said Steven F. Charlton, partner and director of consulting services, in an interview. NEPC experienced a very strong increase in worldwide institutional assets managed with full/partial discretion using ESG principles, up 336.6% to $23.4 billion as of March 31 from the year before.

Mr. Charlton explained that the big increase in ESG AUM is due to a change in its reporting to include managers that have material ESG integration in their strategies. In the past, Mr. Charlton said NEPC included only AUM from managers that were expressly ESG-oriented.

NEPC's assets managed by diverse managers dropped by 8.7% to $3.3 billion as of March 31 compared with the previous year. Mr. Charlton stressed that "NEPC's commitment to DEI is firmwide. We want to target women- and other diverse-led or owned money management firms to invest with. We are seeing growth in this area."

NEPC has set target exposures to diverse managers of 10% by the end of 2022 and 15% by 2024, Mr. Charlton said.

NEPC's worldwide institutional OCIO assets under management with full/partial discretion totaled $61.7 billion as of March 31, up 15% from the same date a year earlier, according to *P&I's* survey data.

Regarding ESG, NEPC has committed to rating every investment manager the firm works with on five levels of ESG investment, depending on a firm's effort to include ESG principles and the level of ESG integration maintained.

P&I's aggregate survey data showed that worldwide institutional OCIO assets under management with full/partial discretion in ESG funds were down 8.4% to $392.2 billion as of March 31.

The decline was due in part because the three largest OCIO ESG managers had an aggregate decline of $10.5 billion in ESG AUM and two of the 10 largest ESG firms from last year did not provide data in this category for the 2022 survey.

Within the same category of worldwide institutional assets managed with full/partial discretion as of March 31, AUM managed by women-, minority-, disabled and veteran-owned firms totaled $34.7 billion, a decline of 28.2% compared with the a year earlier. One large OCIO manager declined to provide data about its WMDV assets under management worldwide with full/partial discretion.

Endowments and foundations

Greg Calnon, New York-based partner global head of the multiasset solutions group at Goldman Sachs Asset Management, said he is seeing a growing demand for ESG and sustainable investing — across the broad spectrum of global asset owners, but particularly from endowments and non-profits. According to *P&I* data, Goldman had about $239.9 billion in worldwide outsourced institutional AUM with full or partial discretion as of March 31, ranking it the second such largest manager, up 15.5% from the year-ago figure.

Michael Cagnina, Oaks, Pa.-based vice president and managing director of the institutional group at SEI Investments Co., noted that sustainability is a very broad concept. "It encompasses different topics," he said. "There is no one-size-fits-all sustainable investing policy. Some of the clients I have dealt with are more concerned about ESG while others are focused on impact investing, for example."

ESG concerns are important to her clients, said Stephanie Lynch, Charlotte, N.C.-based co-founder and partner of Global Endowment Management, especially endowments and foundations whose boards want their investments to align more with their personal values. "They want to know how these investments are impacting the planet and the future," she noted.

Global Endowment Management had $10.2 billion of its $10.9 billion in OCIO assets managed under ESG principles, ranking it eighth among firms reporting. ■

HIRINGS

■ **AbbVie Inc.**, North Chicago, Ill., added four passive collective investment trusts managed by **State Street Global Advisors** and an active domestic core-plus fixed-income trust managed by **TCW Group** to the investment options lineup of its 401(k) plan.

During 2021, the plan added the State Street S&P 500 Index Securities Lending Series CIT, State Street Russell Small/Mid Index Securities Lending Series CIT, State Street Global All Cap Equity ex-U.S. Index Securities Lending CIT and State Street U.S. Bond Index Securities Lending Series CIT, according to a comparison of the company's 11-K filing on June 23 and last year's filing.

As of Dec. 31, the State Street CITs had $1.2 billion, $583 million, $435 million and $4 million, respectively, in plan assets.

Also during 2021, the plan added the TCW Metwest Total Return Bond CIT. As of Dec. 31, the active core-plus fixed-income CIT had $386 million in assets in the plan, according to the new 11-K filing.

The comparison also showed the plan removed eight investment options from the plan during 2021.

As of Dec. 31, the AbbVie Savings Plan had $8.2 billion in assets.

■ **Anne Arundel County Retirement and Pension System**, Annapolis, Md., approved two new private equity commitments totaling $50 million.

The $2.7 billion pension fund's board approved commitments of $30 million to **Warburg Pincus** Global Growth 14, a private equity fund that invests in sustainable value companies, and $20 million to Apogem Private Equity Fund X, a private equity fund of funds managed by **Apogem Capital**, at its May 17 meeting, said Anne M. Budowski, the county's personnel officer, in an email.

■ **Arizona Public Safety Personnel Retirement System**, Phoenix, committed $100 million to Crestline Opportunity Fund V. The $17.2 billion pension fund completed the commitment to the private credit fund managed by **Crestline Investors** on June 1, said Christian Palmer, pension fund spokesman, in an email.

■ **Bank of Montreal**, Toronto, added four asset allocation collective investment trusts managed by **BlackRock** to the investment options lineup of its 401(k) plan in 2021.

The bank added the BlackRock 80/20 Target Allocation Fund, BlackRock 60/40 Target Allocation Fund, BlackRock 40/60 Target Allocation Fund and BlackRock 20/80 Target Allocation Fund to the lineup during 2021, according to a comparison of its 11-K filing with the SEC on June 24 and last year's filing.

As of Dec. 31, the BlackRock target allocation funds had $127 million, $51 million, $20 million and $18 million, respectively, in assets in the plan.

The plan also removed five mutual funds managed by BMO Asset Management from the plan's lineup during 2021.

As of Dec. 31, the Employees' 401(k) Savings Plan of Bank of Montreal/Harris had $3 billion in assets.

■ Taiwan's $198.6 billion **Bureau of Labor Funds** awarded $2.3 billion in global climate changed-aligned equity mandates to **HSBC Global Asset Management (UK)**, **Legal & General Investment Management**, **Morgan Stanley Investment Management**, **Schroder Investment Management** and **Wellington Management Co.**

In March, the Taipei-based BLF, which oversees a handful of public pension and insurance funds, said it was looking for five managers to run $400 million each for the country's $114.7 billion Labor Pension Fund and $60 million each for its $15.4 billion National Pension Insurance Fund.

■ **ConocoPhillips**, Houston, added seven new passive investment options to the lineup of its 401(k) plan in 2021 and removed seven similar options managed by the Vanguard Group, according to a comparison of the oil and gas company's 11-K filing with the SEC June 27 and last year's filing.

The plan added four funds managed by **BlackRock**, two managed by **State Street Global Advisors** and one managed by **Geode Capital Management** during the year.

According to the new 11-K filing, as of Dec. 31, the BlackRock Equity Index Fund, BlackRock Russell 2000 Index Fund, BlackRock MidCap Equity Index Fund and BlackRock U.S. Treasury Inflation Protected Securities Fund had $629 million, $217 million, $161 million and $70 million, respectively, in assets in the plan; the Geode Capital Management Trust Spartan Total Market Index Pool, $338 million; and the State Street Global All Cap Equity Ex-U.S. Index Securities Lending Series Fund and the State Street U.S. Bond Index Securities Lending Series Fund had $178 million and $171 million, respectively.

As of Dec. 31, the ConocoPhillips Savings Plan had $6.8 billion in assets.

■ **CVS Health Corp.**, Woonsocket, R.I., added a customized white-label active domestic smidcap core equity fund to the investment options lineup of its 401(k) plan.

The plan added the Small Mid Cap Core Fund investment option effective July 3, and it had $800 million in assets as of Dec. 31, according to the company's 11-K filing with the SEC.

The underlying active domestic equity managers, each of which manage 20% of the assets of the white-label fund, are small-cap growth manager **Baron Funds**, midcap growth manager **D.F. Dent & Co.**, midcap value manager **MFS Investment Management**, small-cap value manager **Sapience Investments** and smidcap value manager **Snyder Capital Management**.

The new Small Mid Cap Core Fund replaced the Small Cap Value Fund, which was co-managed by Dimensional Fund Advisors (50% of assets), Sapience (25%) and Vanguard Group and had $423 million in assets.

As of Dec. 31, the CVS Health Future Fund 401(k) Plan had $28.6 billion in assets.

■ **Delaware Public Employees' Retirement System**, Dover, committed up to $50 million to **Accel** Leaders Fund 4.

The $14.5 billion pension fund's investment committee approved the commitment to the venture capital fund at its May 17 meeting, recently released meeting minutes show.

■ **El Paso (Texas) Firemen & Policemen's Pension Fund** committed $15 million to **Paine Schwartz** Food Chain Fund VI.

The $2 billion pension fund's board approved the commitment to the agriculture private equity fund at its June 22 meeting, said Tyler Grossman, executive director, in an email.

HAVE SOME NEWS?

Please submit news of changes to Kevin Olsen, managing editor, at kolsen@pionline.com.

ILLINOIS TEACHERS ASSIGNS $5.1 BILLION TO 26 STRATEGIES

Illinois Teachers Retirement System allocated up to $5.1 billion to 26 strategies from February to May, according to a news release following a June 16 board meeting.

From its global income portfolio, the $66.1 billion pension fund hired **Payden & Rygel** to run $350 million to $400 million in an emerging markets debt strategy, and committed $150 million to **Cerberus** Real Estate Debt Fund II; $100 million each to **Pharmakon** BioPharma V and **Edelweiss** India Special Assets Fund III; $75 million to DCP Asia Credit Fund III, managed by **Dignari Capital Partners**; and $25 million to **L2 Point** Opportunities I.

Five of the system's fixed-income managers were awarded additional allocations with the largest addition — $250 million — going to Apollo Lincoln Fixed Income Fund, a separate account managed by Apollo Global Management. Assets in the fund totaled $502 million prior to the additional allocation.

The **PIMCO** Horseshoe Fund, a separate account, and **Intermediate Capital Group**'s ICG Santo fund each received an additional $225 million; the strategies had $652 million and $440 million before, respectively.

Hayfin Capital Management received an additional $200 million follow-on allocation to Hayfin Chief, a separate account that had $269 million, and **Beach Point Capital Management** was given an extra $150 million to run in Beach Point Sangamon, a separate account with $434 million previously.

In its public equity portfolio, TRS hired four managers run $400 million each: **Causeway Capital Management** for international large-cap value equities; **T. Rowe Price Associates**, global all-cap growth equities; **William Blair & Co.**, international all-cap growth equities; and **J.P. Morgan Asset Management**, U.S. all-cap growth equities.

The pension plan also terminated a $307 million U.S. large-cap value equities portfolio managed by LSV Asset Management. Two passive strategies managed by RhumbLine Advisers were terminated with $222 million coming from a Russell midcap growth mandate and $158 million from a Russell 1000 growth mandate.

A total of up to $1.2 billion was committed to eight existing and one new manager from the pension fund's $10.4 billion private equity portfolio.

In private equity, TRS committed $200 million each to **EQT** X, **RCP Advisors**' RCP SBO Fund III and **Veritas Capital** Fund VIII; $150 million to **Arlington Capital Partners** VI; up to $125 million each to **Advent International** GPE X and **SK Capital Partners** VI; $100 million to **Francisco Partners** Fund VII; and $79 million to **Providence Strategic Growth** Europe III. The pension plan also committed an additional $14 million to **Grain Management**'s Grain Communications Opportunity Fund II. The firm manages $119 million for the pension fund.

In real estate, the pension plan committed up to $300 million to **Blackstone** Real Estate Partners X and up to $100 million to Gateway Real Estate Fund VIII, managed by **Gaw Capital Partners**.

Lastly, TRS terminated its $250 million allocation to Light Sky Macro Fund.

■ **Hollywood (Fla.) Employees' Retirement Fund** hired **EARNEST Partners** to manage about $17 million in active domestic smidcap value equities. The $448 million pension fund had conducted a shortlist search for a manager to replace Thompson Siegel & Walmsley.

■ **Hostplus** made a $500 million anchor commitment to a new dedicated Apollo Asia-Pacific credit strategy that **Apollo Global Management** launched with $1.25 billion in assets, a joint news release said.

Hostplus is a Melbourne-based superannuation fund with more than A$68 billion ($47.2 billion) in retirement assets. Apollo's new Asia-Pacific credit strategy will focus on investing in Australia, India, Singapore, South Korea and Hong Kong.

■ **Houston Firefighters' Relief and Retirement Fund** approved two new commitments totaling up to $130 million. The $5.5 billion pension fund's investment committee approved commitments of up to $100 million to global real estate fund **Blackstone** Real Estate Partners X and up to $30 million to **LightBay** Investment Partners II, a distressed debt fund, at its May 17 meeting, recently released meeting minutes show.

■ **Indiana Public Retirement System**, Indianapolis, committed $210 million to three managers in April and May from the retirement system's $38.1 billion defined benefit plan, a transaction report provided to trustees during a June 24 meeting showed.

From the $3 billion real assets portfolio, the pension fund committed $100 million to **Abacus** Multi-Family Partners VI, a real estate fund that will seek to acquire multifamily properties in the U.S., and $10 million to **KKR** Project Thor Co-Investment, a co-investment fund alongside KKR Diversified Core Infrastructure Fund, the report said. INPRS committed $100 million to the open-end KKR infrastructure fund in September 2021.

In private markets, the pension fund committed $100 million to **Bregal** Sagemount IV-B, a private equity fund that will seek buyout or structured minority investments in growth companies with high amounts of recurring revenue, the report said.

INPRS also fully redeemed assets from two hedge funds run by Pharo Management: $128 million from Pharo Macro Fund and $57 million from Pharo Gaia Fund.

■ **International Business Machines Inc.**, Armonk, N.Y., added four new underlying managers to the custom total bond market fund investment option in its 401(k) plan.

The plan hired **Loomis Sayles & Co.**, **Western Asset Management**, **Pacific Investment Management Co.** and **R.W. Baird & Co.** as additional underlying managers for the total bond market fund in 2021, according to a comparison of the company's new 11-K filing with the SEC on June 17 and last year's filing.

Each managers' individual assets in the plan as of Dec. 31 were $1.2 billion, $572 million, $551 million and $512 million, respectively, according to the new 11-K filing.

According to the plan's prior 11-K filing, Neuberger Berman was the sole underlying manager of the total bond market fund as of Dec. 31, 2020. As of that date, the fund had $4.5 billion in assets in the plan. In the new 11-K filing, Neuberger Berman's share of the Total Bond Market Fund had dropped to $1.9 billion as of Dec. 31.

As of Dec. 31, the IBM 401(k) Plus Plan had $65.6 billion in assets, according to the new 11-K filing.

■ **ITT Inc.**, Stamford, Conn., added a target-date fund series managed by **State Street Global Advisors** to the investment options lineup of its 401(k) plan.

The industrial equipment company added the series of 11 target-date funds during 2021, according to a comparison of its 11-K filing with the SEC on June 24 and last year's filing. As of Dec. 31, the funds had a total of $291 million in assets in the plan.

The comparison also showed the plan removed a similar target-date fund series managed by J.P. Morgan Asset Management during 2021.

As of Dec. 31, the ITT Retirement Savings Plan had $602 million in assets.

■ **Kentucky Teachers' Retirement System**, Frankfort, disclosed commitments totaling up to $325 million, said Robert B. "Beau" Barnes, deputy executive secretary and general counsel, in an email.

The $24.6 billion pension fund committed up to $130 million to TRS **Deerpath Capital** Direct Lending, a customized direct lending fund; up to $65 million to global real estate fund **Blackstone** Real Estate Partners X; up to $50 million each to **Apax** XI, a middle-market buyout fund, and **Carlyle** Renewable and Sustainable Energy II, an infrastructure fund; and up to $30 million to NGP ETP IV, a natural resources fund managed by **NGP Energy Capital Management**.

■ **Los Angeles County Employees Retirement Association**, Pasadena, Calif., disclosed a total of up to $216 million in a new real asset commitment and completed a secondary alternative investment commitment.

The $73.8 billion pension fund's board of investments during the closed

HIRINGS

session of its June 8 meeting approved a commitment of up to €125 million ($131 million) to **HitecVision** New Energy Fund, a real assets fund focused on investing in the energy transition primarily in the Nordic region, with some exposure to the rest of Europe.

LACERA also made a secondary alternative investment purchase commitment of up to $85 million in a special purpose vehicle, continuation fund managed by **GHO Capital Partners**, a European health-care buyout manager. The board was notified of the deal in December; the transfer of LACERA funds took place April 26.

On May 10, GHO Capital Partners announced an increased investment in its portfolio company Validant, a consultant for biotech, pharmaceutical and medical technology companies through a continuation vehicle led by LACERA and Goldman Sachs Asset Management.

■ **Magna International Inc.**, Aurora, Ontario, added five index funds managed by **Fidelity Investments** to the investment options lineup of its 401(k) plan.

The plan added the Fidelity Mid Cap Index Fund, Fidelity Small Cap Index Fund, Fidelity 500 Index Fund, Fidelity U.S. Bond Index Fund, and Fidelity Total International Index Fund to the lineup during 2021, according to a comparison of the company's 11-K filing June 24 and last year's filing. The options had $265 million, $115 million, $91 million, $24 million and $13 million, respectively, in plan assets in the plan, according to the new 11-K filing.

The comparison also showed the plan removed four separate accounts managed by Principal Global Investors from the lineup during 2021.

As of Dec. 31, the Magna Group of Companies Retirement Savings Plans had $2.6 billion in assets.

■ **Medford (Mass.) Contributory Retirement System** hired **RhumbLine Advisers** to manage about $20 million in passive large-cap value equities. The $245 million pension fund issued an RFP earlier in May based on the recommendation of its investment consultant, NEPC, to add a Russell 1000 Value index fund manager to provide further diversification, said Mark Minervini, executive director, in a May 2 phone interview.

■ **Michigan Department of Treasury**, Bureau of Investments, disclosed just under $2.3 billion in alternative fund commitments completed in the first quarter on behalf of the $98.4 billion Michigan Retirement Systems, East Lansing, according to materials for the state's investment board meeting June 23.

In private equity, the bureau committed $350 million to global buyout fund **Advent International** GPE X; $250 million to buyout fund **Veritas Capital** Fund VIII; $175 million to TSG9, a buyout fund managed by **TSG Consumer Partners**; $100 million each to middle- and large-market buyout fund **Harvest Partners** IX; Hg Saturn 3, a large buyout fund managed by **Hg Capital**; and buyout funds **Thoma Bravo** Discover Fund IV and Thoma Bravo Explore II; $83 million to mid- to large-cap buyout fund **Permira** VIII; and $75 million to **Lead Edge Capital** VI, a venture capital fund.

Also in private equity, the bureau committed a total of $76 million to four venture capital funds managed by **Lightspeed Venture Partners**: $25 million each to Lightspeed Opportunity Fund II and Lightspeed Venture Partners Select V, $15 million to Lightspeed Venture Partners XIV-B (Ignite) and $11 million to Lightspeed Venture Partners XIV-A (Inception); and also committed $10 million to venture capital fund **Accel** India VII.

In its real return and opportunistic asset class, the bureau committed $275 million and $150 million, respectively, to Green Equity Investors IX and Jade Equity Investors II, both buyout funds managed by **Leonard Green & Partners**; and committed $100 million to **Clearlake** Opportunities Partners III, a non-control and special-situations-focused fund.

In real estate and infrastructure, the bureau committed $150 million to opportunistic real estate fund **TPG Real Estate Partners** IV and also hired **Cerberus Capital Management** to run $100 million in SFR CM, a separately managed account investing in the U.S. single-family rental market.

In absolute return, the bureau committed $100 million to **PIMCO** Private Income Fund Onshore Feeder, which is focused on "originating or acquiring public or private income-producing assets across residential, commercial, corporate and specialty finance markets," according to the board meeting materials.

■ **Missouri Local Government Employees Retirement System**, Jefferson City, committed $65 million to Star Mountain Strategic Credit Income Fund IV. The $10.7 billion pension fund disclosed the commitment to the direct lending fund managed by **Star Mountain Capital** at its June 17 meeting, spokeswoman Elizabeth Althoff said in an email.

■ **Northern Trust Corp.**, Chicago, replaced its own proprietary target-date fund lineup in its 401(k) plan with the **BlackRock** LifePath Index Fund series. The bank added the series of 10 target-date funds during 2021, according to a comparison of Northern Trust's 11-K filing with the SEC on June 24 and last year's filing.

As of Dec. 31, the BlackRock target-date funds had a total of $535 million in assets in the plan, according to the new 11-K filing.

The Northern Trust Focus Funds had a total of $464 million in assets in the plan a year earlier.

Two lawsuits had been filed in U.S. District Court in Chicago in November 2020 and June 2021 by 401(k) plan participants claiming the bank had violated its fiduciary duties under the Employee Retirement Income Security Act of 1974 by providing its own proprietary target-date series in the 401(k) plan.

The new 11-K filing does not say whether the change is connected to the lawsuits.

As of Dec. 31, the Northern Trust Co. Thrift-Incentive Plan had $3.1 billion in assets.

■ **Ohio Police & Fire Pension Fund**, Columbus, made two new commitments totaling $100 million.

The $17.4 billion pension fund's board at its meeting June 29 approved commitments of $50 million each to **Comvest** Credit Partners VI, a direct lending fund, and value-added real estate fund **EQT Exeter** Industrial Value Fund VI, spokesman David Graham said in an email.

■ **Ohio School Employees Retirement System**, Columbus, hired **WCM Investment Management** to run $50 million in active domestic small-cap growth equities.

The $17.7 billion pension fund's investment committee approved the hiring at its June 16 meeting, according to board meeting highlights emailed by spokesman Tim Barbour.

■ **Pennsylvania Municipal Retirement System**, Harrisburg, committed up to $170 million to **Ares** Global Multi-Asset Credit Fund.

The $3.4 billion pension fund's board approved the commitment to the opportunistic credit fund at its June 16 meeting, said Timothy Reese, the pension fund's CEO, in an email.

Mr. Reese said the commitment is the result of the pension fund deciding in 2021 to add opportunistic credit to its fixed-income asset class.

■ **Pennsylvania Public School Employees' Retirement System**, Harrisburg, approved two new alternative commitments totaling up to $350 million.

The $75.9 billion pension fund's board at its June 17 meeting approved commitments totaling up to $250 million to GCM U.S. Partnership Opportunities, a private infrastructure fund managed by **GCM Grosvenor**, and up to $100 million to venture capital fund **Greenoaks Capital** Opportunities Fund V, spokeswoman Evelyn M. Williams said in an email.

■ **Quest Diagnostics Inc.**, Secaucus, N.J., added the GW&K Small/Mid Cap Fund collective investment trust to the investment options lineup of its profit-sharing plan.

The plan added the active domestic smidcap equity fund managed by **GW&K Investment Management** during 2021, according to a comparison of the company's 11-K filing with the SEC on June 23 and last year's filing.

The GW&K CIT had $170 million in assets in the plan as of Dec. 31.

The comparison also shows the plan removed two funds from the lineup in 2021 — the DFA U.S. Small Cap Value Portfolio and the Invesco Global Real Estate Fund.

As of Dec. 31, the Quest Diagnostics Profit Sharing Plan had $5.7 billion in assets.

■ **Rhode Island State Investment Commission**, Providence, approved new alternative fund commitments totaling up to $46 million for the $10.3 billion Rhode Island Employees' Retirement System.

The commission at its May 25 meeting approved commitments of up to $20 million to **Crow Holdings** Realty Partners X, an opportunistic real estate fund; and $13 million each to life-sciences venture capital funds **Column Group** V and Column Group Opportunity III, said Benjamin Smith, spokesman for Rhode Island state Treasurer Seth Magaziner, who oversees the commission, in an email.

■ **San Antonio Fire & Police Pension Fund** committed $20 million to StepStone VC Global Partners XI. The $4 billion pension fund's board approved the commitment to the venture capital fund of funds managed by **Greenspring Associates** at its May 31 meeting, recently released meeting minutes show.

■ **Science Applications International Corp.**, Reston, Va., added the Columbia Trust Emerging Markets Fund to the investment options lineup of its 401(k) plan.

The plan added the active emerging markets equity fund managed by **Columbia Threadneedle Investments** during 2021, according to a comparison of the company's 11-K filing with the SEC on June 22 and last year's filing. As of Dec. 31, the Columbia Threadneedle fund had $51 million in assets in the plan. The comparison also shows the plan removed the DFA Emerging Markets Portfolio from the lineup during 2021.

As of Dec. 31, the Science Applications International Corp. Retirement Plan had $5.2 billion in assets.

■ **United States Steel Corp.**, Pittsburgh, added five passive collective investment trusts managed by **State Street Global Advisors** to the investment options lineup of its two 401(k) plans.

The plan added the State Street S&P 500 Index CIT, State Street U.S. Bond Index CIT, State Street U.S. Inflation-Protected Bond Index CIT, State Street Global All Cap Equity ex-U.S. CIT and State Street Russell Small/Mid Cap Index CIT during 2021, according to a comparison of the company's 11-K filings with the SEC on June 17 and last year's filings.

The CITs had a total of $458 million, $98 million, $35 million, $18 million and $4 million, respectively, in assets in the two 401(k) plans as of Dec. 31.

The comparison also shows the plans removed two index mutual funds managed by Fidelity Investments during 2021.

As of Dec. 31, 2020, the Fidelity 500 Index Fund and Fidelity U.S. Bond Index Fund had a total of $387 million and $113 million, respectively, in the plans.

As of Dec. 31, the United States Steel Corp. Savings Fund Plan for Salaried Employees and USS 401(k) Plan for USW-Represented Employees had $1.6 billion and $1.3 billion, respectively, in assets.

■ **Ventura County (Calif.) Employees' Retirement Association** approved two new commitments totaling $80 million. The $7.4 billion pension fund's board at its meeting June 20 approved commitments of $40 million each to Dover Street XI, a secondary private equity fund managed by **HarbourVest Partners**, and private debt fund **Pantheon** Credit Opportunities Fund II, said Dan Gallagher, chief investment officer, in an email.

■ **University of Vermont and State Agricultural College**, Burlington, committed $5 million to TrueBridge Global Premier I for its $764 million endowment pool. The university's investment subcommittee approved the commitment to the venture capital fund of funds managed by **TrueBridge Capital Partners** at its April 20 meeting, recently released meeting minutes show.

■ **Virginia Retirement System**, Richmond, disclosed new credit strategies and real assets commitments totaling $875 million. Within its credit strategies asset class, the $102.7 billion pension fund committed $450 million to Magnetar Diversified Credit, an opportunistic credit fund managed by **Magnetar Capital**.

Within its real assets asset class, the pension fund committed $200 million to EIG River Energy Partners, a natural resources fund managed by **EIG Partners**, $150 million to North American middle-market infrastructure fund **iCON Infrastructure** Partners VI and $75 million to **True Green Capital** Fund IV, a renewable infrastructure fund managed by **True Green Capital Management**.

■ **Wales Pension Partnership**, Carmarthen, hired **Russell Investments** and **Hamilton Lane** for a private credit program, the organizations said in a joint news release June 22.

The size of the mandate was not available.

Wales Pension Partnership is the pool for eight local government pension funds in Wales. It had assets of £21.6 billion ($29.7 billion) as of March 2021, according to the most recent annual report. Of that, £5.2 billion was in insurance policies held by the eight pension funds, and the remaining assets are in the process of being invested within subfunds.

Russell Investments and Hamilton Lane will manage a private credit strategy that will focus on diversification across investment strategies, sectors and geographies, with particular focus on sustainability, according to the news release.

Russell Investments was first hired as an investment manager for the pension pool in 2018. It manages more than £8 billion of WPP's pooled assets across equities, fixed income and private markets portfolios, the release said.

N.Y. STATE COMMON SLATES $1.6 BILLION FOR ALTERNATIVES

New York State Common Retirement Fund, Albany, disclosed manager hires and alternative fund commitments totaling $1.6 billion in a May transaction report posted the website of Thomas P. DiNapoli, state comptroller and sole trustee of the $279.7 billion pension fund.

In private equity, the pension fund committed $400 million to technology buyout fund **Vista Equity Partners** Fund VIII; and $5 million to S Capital III, a buyout fund managed by **S Capital VC Management**, through the Hamilton Lane NY Israel Fund.

In fixed income, the pension fund hired **Ramirez Asset Management** to run $350 million in long-term government fixed income.

In opportunistic absolute-return strategies, the pension fund committed $350 million and $50 million, respectively, to growth equity fund B Capital Global Growth III and venture capital fund B Capital Ascent Fund II, both managed by **B Capital Group Management**.

In credit, the pension fund committed $300 million to CVI Clean Energy Fund B II, an opportunistic credit fund managed by **CarVal Investors**.

Finally, in its emerging managers program, the pension fund committed $100 million to BIG Real Estate Fund II, a high-yield debt fund managed by **Basis Investment Group**.

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RFPs

MISSOURI LAGERS
A Secure Retirement for All

Request For Proposal: Board Investment Consultant

The Missouri Local Government Employees Retirement System (LAGERS) seeks responses from firms or individuals interested in serving as the Board Investment Consultant to the system's seven member Board of Trustees. LAGERS is a $10.5 billion defined benefit public pension plan located in Jefferson City, Missouri. Qualification criteria and full RFP may be found at https://www.molagers.org/about-us/career-opportunities-rfps/. The deadline for submitting a proposal is August 5, 2022.

RFPs

RFP: ILLINOIS FIREFIGHTERS' PENSION FUND

The Illinois Firefighters' Pension Investment Fund (FPIF) is soliciting proposals from fixed income investment management firms to manage core and core plus fixed income mandates. FPIF expects that one core strategy will be selected to invest 12% of FPIF's portfolio and one core plus strategy will be selected to manage an additional 12%. Respondents may propose up to two strategies.

Starting on July 5, 2022, the RFP can be found on FPIF's website at: https://ifpif.org/employment-procurement/

Proposals must be submitted by 12:00 p.m. CDT on August 5, 2022 to:

Illinois Firefighters' Pension Investment Fund
Mitchell Green, Portfolio Officer – mgreen@ifpif.org
AND investments@ifpif.org

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Job Title	Company	Location	Date Posted
Senior Risk Management and Compliance Officer	State Universities Retirement System (SURS)	IL	06/27/2022
Compliance Officer, P3	United Nations Joint Staff Pension Fund	NY	06/27/2022
Staff Counsel (Investments)	Los Angeles County Employees Retirement Association (LACERA)	CA	6/24/2022
Principal Investment Officer, Global Fixed Income	Office of the Connecticut State Treasurer	CT	6/10/2022
Senior, Risk, and Investment Officers	North Dakota Retirement and Investment Office	ND	6/9/2022
Fund Accountant	Farallon Capital Management, L.L.C.	CA	6/6/2022
Accountant (Derivatives), P3	United Nations Joint Staff Pension Fund	NY	6/1/2022
Investment Officer, P3	United Nations Joint Staff Pension Fund	NY	6/1/2022

Travel

CONTINUED FROM PAGE 1

Shortly after the court's ruling, J.P. Morgan Chase & Co. sent a memo to employees saying it would begin paying for them to travel for abortion care. Bank of America Corp., Goldman Sachs Group Inc. and Citigroup Inc. also sent emails to employees that day assuring them that they would pay for their travel.

Now, other financial institutions and money managers say they will do the same.

"In light of the U.S. Supreme Court's decision, we are working to ensure that all U.S. employees will have access to reproductive health care no matter what state they live in," State Street said in a statement emailed to Pensions & Investments. The firm, which has a $4 trillion asset management unit, also said it would cover the costs for employees to travel outside of the state where they live to receive care.

Travel expenses

Pacific Investment Management Co., with $2 trillion in assets under management, said in an email that the company is "responsible for ensuring our employees have equitable access to quality health care. As such, PIMCO will cover reasonable eligible travel expenses for those U.S. employees whose reproductive health services require travel to receive care out-of-state."

Private equity firms Blackstone Inc., KKR & Co., Ares Management Corp., The Carlyle Group Inc. and TPG Inc. also said they would cover travel expenses for employees seeking abortion care.

"We are concerned that overturning Roe may also have a ripple effect on other individual rights and proportionately disadvantage underserved and minority communities," said Jon Winkelried, CEO of TPG, which is headquartered in both San Francisco and Fort Worth, Texas, in a statement. "We will stand and take actions in support of the women at this firm and elsewhere to preserve their rights."

TPG has $120 billion in assets under management.

Franklin Resources Inc. and Capital Group Cos. will also cover the costs for employees to travel for medical care, including abortion, something both firms said they did before the Supreme Court's ruling.

Fidelity Investments' employee health-care plans cover abortion services and the company has expanded coverage of travel expenses for medical procedures, including abortions, that are not available within 50 miles of a Fidelity employee's home, said Michael Aalto, a Fidelity spokesman, in an email.

Previously, Fidelity's health-care plans only covered travel and lodging costs for certain procedures, such as transplants, Mr. Aalto said..

"Fidelity's benefits are designed to support the total lives and well-being of our associates. We offer generous benefit packages that provide for in- and out-of-state care," Mr. Aalto said.

'A firm like BlackRock is between a rock and a hard place. If employees demand abortion services, company management is pressured to provide them, while on the other hand, BlackRock and other managers run the risk of offending clients who may withdraw their investments.'

THE WAGNER LAW GROUP'S **MARCIA S. WAGNER**

Fidelity managed $4.3 trillion with discretion and $11.3 trillion of assets under advisement as of March 31.

BlackRock Inc., the world's largest manager with $9.6 trillion in assets, has not publicly commented about the Supreme Court's ruling. But on July 27, it sent a memo to employees saying it would cover travel expenses for abortion care, Yahoo Finance reported. The money manager declined requests by *P&I* for comment.

"Through company-sponsored health insurance, we have long provided reproductive health-care services, including coverage for birth control and abortion or miscarriage care," Manish Mehta, BlackRock's global head of human resources, wrote in an email to staff, according to Yahoo.

How employees will engage companies about the travel benefit, and how their privacy would be protected from states that seek information about their health care, is unclear.

A number of asset managers that P&I reached out to about covering travel costs related to abortion care did not respond. It is possible that those managers are in discussions with their insurance providers to change the benefits they offer. Others, like BlackRock, might be assuring employees they will cover the travel expenses internally, rather than publicly.

Facing a 'conundrum'

Like other employers, asset managers are facing a "conundrum," said Marcia S. Wagner, founder and managing partner of The Wagner Law Group, a Boston-based firm that specializes in ERISA and employment law.

Paying for travel needed to secure abortion services for employees — or not — puts money managers in a tough place when it comes to their employees and clients. Some will be supportive of covering abortion services and some which will not, she said.

"The vast majority of professional women support the provision of abortion services," she said. "The question for employers is whether their workforces demand that these services are provided," Ms. Wagner said.

"A firm like BlackRock is between a rock and a hard place. If employees demand abortion services, company management is pressured to provide them, while on the other hand, BlackRock and other managers run the risk of offending clients who may withdraw their investments," Ms. Wagner said. ■

EPA decision

CONTINUED FROM PAGE 6

certain conduct, today's decision reminds us that the 'major questions' doctrine requires courts to consider whether the regulatory action involves a major policy decision that Congress would be expected to address in the first instance," Mr. Torres said.

Kevin L. Walsh, Washington-based principal at Groom Law Group, said in a phone interview that the ruling may impact how the DOL will continue its recent emphasis on rule-making based on ERISA Section 404(a) on fiduciary responsibility.

"One might say in light of this new Supreme Court precedent, a duty to act prudently doesn't give the DOL the authority to craft new substantive responsibilities," Mr. Walsh said.

Dennis M. Kelleher, co-founder, president and CEO at Washington-based non-profit Better Markets, said in a phone interview that the ruling should not have much impact on the SEC because the agency does ground its rule-making in specific statutory authorizations.

He noted, however, the SEC and other agencies will have to tread more carefully in how they present those rules.

They will have to "make much more explicit what they are proposing to do how clearly and closely their rule-making it tied to statutory authority. They will do it to a greater extent in the future to try and forestall baseless legal challenges."

Despite that, Mr. Kelleher foresees a greater number of such challenges ahead. Even though the EPA created its emissions rule and cited the Clean Air Act's statute that empowers the agency to "devise the best system for emissions reduction," Chief Justice John G. Roberts Jr. said in the opinion that in "certain extraordinary cases" something more than merely plausible textual basis is necessary to support specific regulations, Mr. Kelleher said.

Keith Thrash

IMPACT: Kevin L. Walsh said the ruling could affect how the DOL will continue its emphasis on fiduciary rule-making.

In other words, Mr. Kelleher said, while the EPA followed the major questions doctrine, "that's not good enough" for the court majority.

"Every corporate securities lawyer representing corporate America is going to tailor their arguments against the SEC rules to the analysis put forth in the EPA case," Mr. Kelleher said. He added specifically that SEC climate rules will definitely see a significant uptick in the volume of legal challenges ahead.

Andrew L. Oringer, a New York-based partner in the ERISA and executive compensation group at Dechert LLP, said in an email that the specifics of the Supreme Court case could make it so the decision would not be expected to apply for ERISA purposes.

"I do, however, think that the case increasing judicial hostility towards deference to administrative agencies, and Justice Gorsuch's dissent, not surprisingly, is additional evidence of that," Mr. Oringer said. "Indeed, the DOL did get caught up in that trend with the Fifth Circuit's rejection of the amended fiduciary rule in the Chamber of Commerce decision, which was allowed to stand by the Trump administration. But, in terms of specific applicability of the EPA case under ERISA, I suspect that the factual details in the EPA case could make that unlikely."

New York City Comptroller Brad Lander said in a news release June 30 said the decision "undermines the federal government's ability to set critical standards for meaningful reductions in our greenhouse gas (GHG) emissions and to provide for a just transition to a low-carbon economy."

Mr. Lander, the fiduciary for the five pension funds in the $265.9 New York City Retirement Systems, said "We cannot confront the scale of the risks the climate crisis poses to our communities and the global economy without strong, concerted action by both the federal government and the private sector." ■

Scibelli

CONTINUED FROM PAGE 11

worked in the asset management industry enthusiastically rode that wave and enjoyed the many sinecures it produced. However, as 2022 unfolds, few of us making investment decisions today have experience with the inflationary Jimmy Carter-era that ultimately begat the draconian Fed chairmanship of Paul Volcker in 1979. Mr. Volcker's extreme hawkishness ultimately slayed 1970s era inflation, which then unleashed the ensuing tailwind (or wave) circa 1982.

Whether we were conscious of it in real time or not, it's now self-evident that 40-year wave persistently pushed bond yields lower and equity market index returns higher. It rewarded systemic exposure to higher beta, longer duration, "risk on," broadly diversified, fully invested portfolios. If you had simple equity market exposure from 1982 through 2021, whether it was implemented with explicit or implicit fealty to an equity index, your portfolio did quite nicely on an absolute-return basis. Sure, we can quibble over whether or not your active manager "beat the market" during that period, but even if he persistently underperformed the index, your institution likely never faced sustained difficulty funding its financial obligations and commitments due to insufficient returns.

But no more. We've likely embarked on a post-wave, post-tailwind environment signified by a central bank that's exhausted all of its accommodative ammunition. As canonized in the many capital market assumptions issued by an array of estimable practitioners, future equity returns are universally expected to be dismally paltry and alarmingly below most institutions' minimum absolute-return thresholds — which are typically estimated to be 7% per year (i.e., 5% spending plus inflation).

In this new environment where equity market returns are widely expected to be substantially below the 7% threshold, continuing to explicitly or implicitly tether one's portfolio returns to an index's future returns — that are not expected to adequately offset one's future obligations — is counterintuitive.

With the S&P 500 down approximately 20% year to date, the shortcomings of both passive indexing and classical (low tracking error) "active" management are laid bare. That's a daunting 2,200 basis point underfunding differential for all those institutions that dutifully "track" the index, but yet have 5% absolute minimum spending thresholds (net of inflation).

The current moment is ripe for fresh public equity implementation ideas. ACR suggests a third way forward. One that embraces truly untethered active management and absolute-return objectives with lower beta, shorter duration, long-only, outcome-oriented, higher tracking error allocations. One that holds a limited number of infrequently traded, idiosyncratically underwritten public market companies, each expected to produce a satisfactory, above spending result — rather than continuing with a classical systemically allocated portfolio designed to pursue the return of an index most practitioners expect will deliver sub-7% results.

A more innovative approach would be to change the performance measurement mindset from measuring long-only equity portfolios relative to indexes over three-, five- and 10-year trailing periods, to establishing fundamental capital market return expectations, and then measuring fundamental and market portfolio development toward these initial expectations. Such as, comparing one's ex-ante underwritten forecast to one's actual ex-post results, and most importantly, evaluating if those results are sufficient to helping investors fulfill their minimum financial obligations. ■

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Proxy

CONTINUED FROM PAGE 3

With the proliferation of shareholder ESG proposals this year, "you have to focus on fiduciary values," and not be overly prescriptive, said Benjamin Colton, global head of asset steward, voting and engagement for State Street Global Advisors in London. Pension funds and other clients "are always going to be looking through that long-term lens," he said.

Investor ESG priorities vary widely by country or region, with climate, diversity and human capital management important to U.S. investors, and supply chain management a bigger concern in Australia. For that reason, said Mr. Colton, "it is important that asset managers are going to be focused on value, not values," he said.

Climate, climate, climate

Climate risk continued to dominate investors' concerns at annual meetings in 2022, where the value argument was made repeatedly. "We let companies know that as investors we understand that climate risk is business risk," Mr. Zinner said.

Investors also upped their expectations for companies to produce clear and measurable strategies and goals for addressing climate risk as it impacts their particular sector.

Catherine Ogden, sustainable and responsible investment manager for Legal & General Investment Management in London, with $1.4 trillion in assets, said the stewardship team has seen "very marked progress" in its campaign to get 1,000 companies to set net-zero goals. "Now we want detail," Ms. Ogden said.

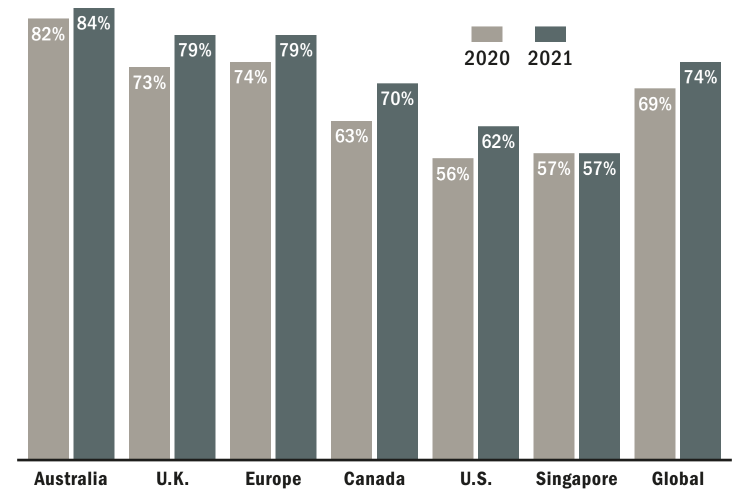
Institutional investors also want to see specifics on how companies are addressing biodiversity.

BNP Paribas Asset Management called on companies to assess and report on their main environmental impacts and nature dependencies, starting with high-impact sectors like mining and agriculture.

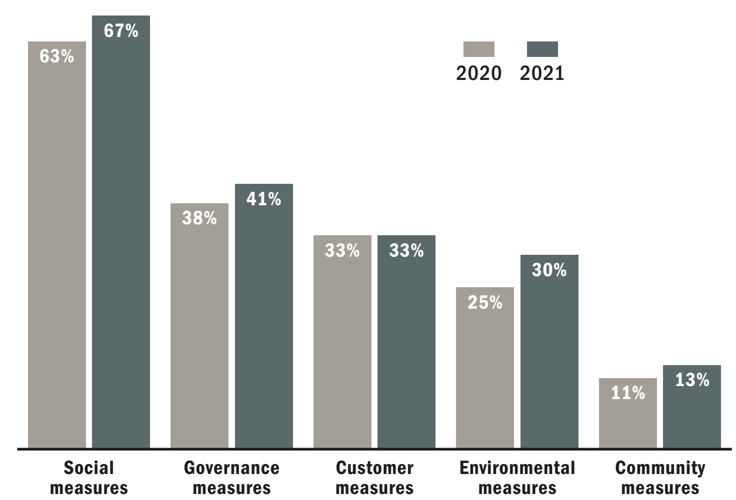
Incentivizing executive pay

A research report by Farient Advisors and the Global Governance and Executive Compensation Group looked at how companies incorporate ESG and other value drivers into their executive compensation plans.

Prevalence of stakeholder incentive measures by region



Prevalence of stakeholder incentive measures by type*



*Among companies using stakeholder measures. Source: Farient Advisors LLC "2022 and Beyond: Global Trends in Stakeholder Incentives"

Companies failing to meet those expectations faced negative votes on director elections or other matters.

Shareholders' say-on-pay votes this season showed growing dissatisfaction with executive compensation, which started rising at a faster rate in 2021 after a year of no increases during the pandemic, said Eric Hoffman, information services leader for Farient Advisors, an executive compensation and corporate governance consultant.

The percentage of companies receiving less than 90% support for executive pay proposals increased to 30.2%, from 17.9% in 2018.

In the spring, his firm will revisit the companies receiving negative

Sun Belt

CONTINUED FROM PAGE 1

ida, NOAA said.

There's been "an unmistakable move" of people to the Sun Belt, which increased demand for real estate in the region, especially apartments, said Jacques Gordon, Chicago-based global head of research and strategy at LaSalle Investment Management. At the same time, the Sun Belt is among the regions that are most at risk due to climate change.

Australia, the southern U.S. and the U.S.'s Eastern Seaboard had the "most acute rises in sea levels" in the developed world from 1993 to 2020, according to a new LaSalle paper on the demographics of migration.

Climate change, climate migration and its resulting impact on the value and demand for properties isn't a theoretical issue for real estate money managers. Climate change can make owning real estate more expensive due to increased cost of insurance, mitigation strategies and possibility of stranded assets unable to attract further investment. And real estate managers' inattention could make it more difficult for them to exit the investment before climate change takes a bite out of returns, Mr. Gordon said.

Long-term investors like LaSalle have to pay attention to the impact of climate change, he said. If property owners can no longer insure buildings, if cooling buildings gets too expensive, in a decade or less, those properties could become stranded assets, Mr. Gordon said.

Protecting properties

Managers that are proactive are investing in properties located in areas with infrastructure in place to help protect properties from rising sea levels, extreme heat and volatile weather, the LaSalle report said. For example, some managers are installing heating and cooling units on rooftops, rather than basements prone to flooding, the report said.

Those risks, however, haven't dissuaded people and investors from migrating to areas that are most at risk from climate change, Urban Land Institute's Emerging Trends in Real Estate 2022 report shows. The top eight metropolitan areas for real estate investment are in the Sun Belt, replacing coastal urban areas such as San Francisco and Manhattan, the report said.

"Investors have been slow to incorporate environmental risks into underwriting," the ULI report said.

According to ULI's survey, real estate industry executives are slightly more concerned about climate change generally than they are about the "risks from extreme weather" — both ranked of moderate importance on a 1 to 5 scale, with overall climate change ranked 3.43 and extreme weather risk ranked 3.13.

"That may change if affected areas are subject to increasingly frequent events, and insurance rates rise," the report said.

With heavier investor demand in the Sun Belt, which is already experiencing floods, extreme storms and hurricanes due to climate change, "greenhouse gas emissions … from the operation and maintenance of real estate" will increase, said Zach Swartz, Richmond, Va.-based counsel in the capital markets and mergers and acquisitions practice of law firm Vinson & Elkins LLP. He represents real estate managers and other real estate investors.

Still bullish

Real estate investors are still

votes in 2022 to see how they responded. In the meantime, stock market losses could keep up the pressure.

"It all leads back to pay and performance. Investors get pretty jumpy if they see losses and when they are not making money, they start to pay attention," said Mr. Hoffman, who is based in Louisville, Ky.

Compensation overlapped more with ESG this proxy season, as shareholders pushed to tie pay to how well management deals with climate risk, diversity and other priorities. "We've seen a movement toward incorporating ESG metrics" into pay decisions, said Mirza Baig, global head of ESG investments for Aviva Investors in London, with £268 billion ($329 billion) under management.

Aviva opposed nearly half of pay-related proposals this year, and roughly one-third of the negative votes involved companies "protecting executives rather than employees," he said.

Getting personal

Institutional investors also made it more personal for corporate board directors this proxy season.

"We find we get a lot more responsiveness when we attach (an issue) to a director vote," said Mr. Colton of State Street Global Advisors. "The board's oversight is so important. That's where our lever is and that's why we're using it more frequently."

The focus on proper oversight also dovetailed with investors' call for more specific — and verifiable — ESG strategies and accomplishments this proxy season. "The targets need to be more robust and there needs to be independent verification, rather than trust," said Mr. Baig of Aviva Investors.

Addressing classified boards, where shareholders can only vote on a subset of directors at a time, is a new priority for CPP Investments, managing C$539 billion ($419 billion) for the Canada Pension Plan, Toronto. CPP this year started voting against all directors of classified boards if their oversight of climate change, board gender diversity or other governance is deemed deficient, and the nominating, governance or risk committee member deemed accountable for it is not up for re-election.

"One of the few rights that minority investors have is to appoint directors; we firmly believe we should be afforded this right annually. Staggered or classified boards impede our ability to hold individual directors to account," said Richard Manley, managing director and head of sustainable investing at CPP Investments in London.

Disparities between a company's public statements on sustainability and its actions heightened investor concern over corporate lobbying and political activity in the past year, particularly when it comes to climate.

Pension fund investors in the U.S. and Europe highlighted that concern at Toyota Motor Co.'s annual meeting June 15, where they confronted its board over lobbying against climate-related regulation of the auto industry. Comparing it to tobacco companies resisting regulation, Anders Schelde, CIO of the 134 billion kroner ($19 billion) pension fund AkademikerPension, Gentofte, Denmark, dismissed Toyota's argument that while its goal is carbon neutrality it also wants to recognize consumer choice. "Toyota is jeopardizing its valuable brand," he said.

Climate lobbying proposals are relatively new, and many filed resolutions were withdrawn after companies agreed to increase disclosures on how their direct and indirect lobbying aligned with the goals of Paris Agreement. Next proxy season, "I think you're going to see a lot of investor activity really pushing for alignment on stated policies and lobbying," said ICCR's Mr. Zinner.

Even as the spring/summer proxy season winds down, investors do not, turning instead to year-round engagement. That is the preferred approach at Vanguard Group Inc., which votes on shareholder proposals only "where we think there is risk," said John Galloway, U.S.-based global head of investment stewardship, along with London-based Lisa Harlow, head of investment stewardship for Europe. In the U.S., "we see positive direct movement on almost every topic," said Mr. Galloway, while outside the U.S., "there are fewer big ticket shareholder proposals," Ms. Harlow said.

The escalation in shareholder proposals is all about investment risk, said Andrew Behar, CEO of As You Sow in Oakland, Calif. "There are more people voting for companies to reduce risk," he said.

At season's end, "the only thing we care about is the companies changing their policies and practices and actually doing something, and getting a board that is listening," Mr. Behar said. "Overall, I think it was a good season." ■

Shareholders lift up their voices at many high-profile company meetings

Public companies heard plenty from shareholders and shareholder coalitions at their annual meetings this proxy season, including demands for bolder action on climate change, and new priorities like living wages for employees, human rights and political lobbying.

"We believe that one of the most important goals of shareholder advocacy is to raise new ideas for consideration by company management, boards and their shareholders," said Andrew Behar, CEO of shareholder advocacy group As You Sow in Oakland, Calif.

Chubb Ltd. and Travelers Cos. Inc. got the message at their respective annual meetings, where first-time resolutions asking them to disclose the carbon impact of underwriting fossil fuel extraction projects were supported by 72.2% and 55.8% of shareholders, respectively.

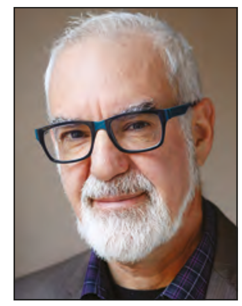
"Clearly investors in insurance are very aware of climate risk and sent a strong message," Mr. Behar said.

Amazon.com Inc. and Comcast Corp. earned shareholder praise for ambitious operational climate goals, but criticism for not reflecting that in investment options offered through their 401(k) defined contribution plans, with extensive holdings in fossil fuel firms or agribusinesses with deforestation risk. Shareholder resolutions led by As You Sow earned single-digit support, but enough to pursue engagement and resubmit resolutions next year calling for explanations.

The resolutions called for a report on how the company's current retirement plan options align with its climate action goals, and how it could provide participants more sustainable investment options, including more climate-friendly default options.

Perceived misalignment between corporate policies and actions brought Toyota Motor Co. unwelcome attention from pension fund investors in the U.S. and Europe unhappy with its political lobbying against climate control regulation. A resolution left off the agenda due to a technicality to have Toyota address the disconnect is expected to reappear next year.

On July 7, the U.K.'s second-largest supermarket chain, J. Sainsbury PLC, will be the first British company to have a living wage resolution raised at its annual meeting. It was filed by a coalition of 10 institutional investors with a collective £2.2 trillion ($2.7 trillion) in assets coordinated by responsible investment group Share Action. Sainsbury's has a good management team facing many challenges, said co-filer Legal & General Investment Management, London, but the resolution gives the company four years to bridge income gaps among its employees.



THINK: Andrew Behar said an important goal of shareholder advocacy is raising new ideas.

Boeing Co. grabbed climate change headlines this year when 91% of shareholders supported a resolution asking it to align the full scope of greenhouse gas emissions with the Paris Agreement's net-zero-by-2050 goal. The vote followed similar "say on climate" resolutions at General Electric Co., supported by 98% of shareholders, and Sysco Corp., where 82% supported it.

Gun-maker Sturm, Ruger & Co. felt the power of institutional investors at its June 1 annual meeting, where 68.5% of shareholders approved an Interfaith Center on Corporate Responsibility member-led resolution that it hire an outside firm to study the effect that its business and products have on human rights. According to investors attending the meeting, which came eight days after the Uvalde, Texas, school shooting, Sturm Ruger CEO Chris Killoy attributed passage largely to support of institutional shareholders, including those who he said "blindly followed" proxy adviser firms' guidance.

— HAZEL BRADFORD

"bullish on the Sun Belt," driven by a big influx of people moving there for a better quality of life, lower cost of living and lower taxes, especially in Florida and Texas, Mr. Swartz said.

So far, they have been rewarded, he said. The most pronounced increases in real estate prices have been in the Sun Belt due to the increased demand.

FOR NOW: Zach Swartz acknowledged that real estate investors are still 'bullish on the Sun Belt.'

Even so, real estate managers are beginning to recognize that real estate is a big consumer of energy and a significant contributor to greenhouse gas emissions, both from the maintenance and the construction of projects, he said. Concrete and steel are "highly carbon intensive," Mr. Swartz said. Even so, "we are building more buildings, not cutting back on that," he said.

However, recent studies are showing that more sustainable, less carbon-intensive properties offer better returns, Mr. Swartz said.

A 2020 Massachusetts Institute of Technology study revealed that properties with healthy building certifications, for example, reaped higher rents of 4% to 7% per square foot over uncertified buildings.

A healthy building promotes the physical, psychological and social health of its occupants with components including good ventilation and air quality, a comfortable temperature, low noise levels, and natural light, according to the Harvard T.H. Chan School of Public Health.

Eighty-seven percent of the surveyed real estate executives reported increased demand for healthy buildings over the past 12 to 24 months, and 92% expect demand to grow over the next three years, according to a recent report by the United Nations Environment Programme Finance Initiative.

Green buildings also garner higher rents and capital values, while costing less in monthly operating and maintenance costs, a November report by real estate money and asset manager CBRE Group Inc. said.

Rent for U.S. offices that are LEED-certified are 5.6% higher than those for non-certified office buildings, CBRE's analysis shows. LEED is a rating system by the U.S. Green Building Council.

Currently, rental premiums on green buildings are "only discernible in the office sector," CBRE noted. Green buildings also tend to be newer, making the premium analysis more difficult, CBRE said in the report.

Real estate managers are starting to take notice of the mounting evidence of a "green premium," with environmentally friendly processes starting to be built into due diligence and the financial contract terms, Mr. Swartz said.

Finance evolving

Some larger real estate investment trusts that have corporate level debt are starting to issue "green bonds," which have provisions that if the company achieves a green certification, such as the Fitwel healthy building certification, and cuts emissions by a certain percent, they would pay a lower interest rate on the debt, Mr. Swartz said.

Higher sales prices, rent premiums and lower cost of capital for green buildings "naturally translate to better returns," Mr. Swartz said.

But U.S. real estate investors are substantially behind Europe and somewhat behind Australia in ensuring buildings emit less carbon and are more environmentally friendly, despite what seems to be a "direct link" to higher rents and lower costs of energy-efficient properties, said Stephen Hayes, Sydney-based head of global property securities for First Sentier Investors, a global money manager with about $174 billion in assets under management.

U.S. lagging behind

Some managers, especially in the U.K. and continental Europe, are working to reduce the energy intensity of buildings. New buildings are being built with the sun's heat in mind, using green building materials and adopting smart energy metering, Mr. Hayes said.

Ultra modern buildings emit 55% less carbon than older real estate stock, Mr. Hayes said.

Some cities in Europe such as Amsterdam are also bulking up defenses against rising seas and other impacts of climate change, the LaSalle report noted. Cities and regions that take measures to be sustainable in the face of the impact of climate change will be more in demand and increase in value over areas that do not, the report said.

However, Mr. Hayes said it is most important to reduce carbon and take other measures, thereby getting to the cause of climate change.

"We are encouraging the real estate industry to have a greater focus not only measuring operational carbon" but setting targets to reduce their carbon footprints, offsetting the risks through such actions as installing on-site renewable energy sources, he said.

And property owners in the U.K. and the rest of Europe are starting to retrofit older buildings to make them more environmentally friendly, a trend that is in its earliest stages, Mr. Hayes said.

"Landlords in the U.K. and Europe are starting to measure carbon," he said. "The great majority of the real estate sector, particularly in the U.S., is ignoring" their carbon emissions. ■

AT DEADLINE

GPIF notches 5.4% gain

Japan's Government Pension Investment Fund reported a 5.42%, or ¥10 trillion ($74 billion), gain for the fiscal year ended March 31, lifting the value of the world's largest pension portfolio to ¥196.6 trillion, or about $1.61 trillion as of that date.

GPIF posted those solid gains despite absorbing a ¥2.2 trillion loss over the final three months of the year as a combination of spiking inflationary pressures, rising pressure for U.S. Federal Reserve Bank rate hikes and geopolitical uncertainties in the wake of Russia's invasion of Ukraine sparked simultaneous sell-offs of stocks and bonds around the world.

Domestic and foreign stocks and bonds all registered losses over the final three months of the year but the 25% of GPIF's portfolio invested in foreign equities suffered the least damage, with a ¥251 billion decline that was roughly a third to a half of the losses suffered by domestic stocks and bonds, and foreign bonds.

N.J. adds to pension fund

New Jersey Gov. Phil Murphy on June 30 signed a $50.6 billion fiscal year 2023 budget that includes a $6.82 billion contribution to the state's pension system. The fiscal year starts July 1.

The pension payment represents the second year in a row in which the state has paid 100% of the actuarially determined contribution for the $94.7 billion New Jersey Pension Fund. Previously, the last full annual contribution to the pension system occurred in 1996.

The state contribution contains general revenue plus proceeds for the state lottery, which is a pension system asset. In recent years, the state has counted on the lottery to provide about $1 billion annually for the pension contribution.

Grayscale sues SEC

Grayscale Investments filed a lawsuit June 29 against the Securities and Exchange Commission, challenging the SEC's decision to deny the conversion of the Grayscale Bitcoin Trust to a spot bitcoin exchange-traded fund, a court filing shows.

The court filing came after the SEC in separate orders issued June 29 disapproved proposed rule changes to list and trade shares of the Grayscale Bitcoin Trust as well as another spot bitcoin exchange-traded product, the Bitwise Bitcoin ETP Trust.

Donald B. Verrilli, Jr., Grayscale's senior legal strategist and former U.S. solicitor general, filed the petition for review with the U.S. Court of Appeals for the District of Columbia Circuit.

The legal team at Grayscale, one of the largest digital currency asset managers, also includes attorneys at Davis Polk & Wardwell, according to a Grayscale spokeswoman, who added that Grayscale uses the generic term ETF even though the offering would strictly speaking be an exchange-traded product as it would not be registered under the Investment Company Act of 1940.

Texas Employees commits

Texas Employees Retirement System committed a total of $140 million to three alternatives managers in May, a transaction report showed.

The $35.2 billion pension plan committed $90 million to two existing managers from its $6.5 billion private equity portfolio. It committed $50 million to **Brighton Park Capital** Fund II and $40 million to Avista Healthcare Partners VI.

From the pension plan's $1.7 billion infrastructure portfolio, it committed $50 million to existing manager **KKR & Co.** for investment in KKR Asia Pacific Infrastructure Investors II, the transaction report showed. The fund invests in infrastructure opportunities with limited downside risk in the Asia-Pacific region.

Citadel HQ heading south

In an announcement to employees, Kenneth C. Griffin, founder and CEO of Citadel, the huge hedge fund based in Chicago, announced he has moved his family to Miami and that the corporate headquarters of Citadel and its related securities unit will be following along.

"Miami is a vibrant, growing metropolis that embodies the American dream — embracing the possibilities of what can be achieved," Mr. Griffin's June 23 announcement said. "I am excited to have recently moved to Miami with my family and look forward to rapidly expanding Citadel in a city still rich in diversity and abounding with energy."

Citadel managed $51 billion in hedge fund assets as of June 1.

A spokesman said the new Miami headquarters will house about 300 headquarters staff. It is not known how many of them will come from Chicago, but relocations will begin this summer.

GSAM takes stake

Goldman Sachs Asset Management is making a preferred equity investment in private debt direct lending firm Varagon Capital Partners to support its further growth, a joint news release said.

With $15.1 billion in assets under management as of March 31, Varagon originates senior loans for private equity-backed, U.S. middle-market companies. Varagon executives plan to use the capital investment to expand its business and launch new vehicles.

The size of GSAM's investment was not disclosed.

Supers

CONTINUED FROM PAGE 2

mark-aware managers going forward will likely be determined by how close they came to failing that first performance test for the fiscal year ended June 30, 2021, analysts said.

Funds trailing their benchmarks by an annualized 50 basis points or more for that first test were obligated to inform their members of that fact and point them to super fund competitors with superior results. Funds that fail two years in a row will be restricted from taking in new members — a formula some industry veterans have described as a virtual death sentence, pressuring funds to merge their assets into bigger, better-performing funds.

"If you're right on the edge of failing," then yes, tracking error has become the No. 1 focus, "because it's sort of existential," said Jonathan Grigg, Melbourne-based director, investments, with consultant Willis Towers Watson PLC. By contrast, for funds comfortably ahead of that minimum performance hurdle, tracking error has become "more important but the urgency is not quite there," he said.

David Bell, executive director of the Conexus Institute, a Sydney-based research firm focused on Australian retirement outcomes, said while no definitive conclusions can be reached yet, anecdotal evidence points to funds in danger of failing the annual test reducing exposure to areas where the benchmarking process "creates noise," such as emerging market equities, which are benchmarked against a predominantly developed market index, while also reducing the overall degree of manager active risk.

But such benchmarking incongruities can offer opportunities as well as cautionary tales. For example, said Mr. Grigg, credit and high-yield bonds are measured against a global aggregate benchmark "so you can expect that to outperform over most eight-year periods," providing funds with a bit of a buffer, capable of offsetting underperformance elsewhere.

67 passed, 13 failed

Of the 80 MySuper default, balanced super funds evaluated by the Australian Prudential Regulatory Authority for the industry's first performance test last year, 67 passed and 13 failed, with results ranging from annualized outperformance of 1.53 percentage points to underperformance of 1.28 percentage points.

Still, even at super funds that handily passed last year's test, some executives have grown more cautious about their manager lineups.

Bill Watson, CEO of Melbourne-basesd First Super, said his fund, while it cleared last year's first performance test with room to spare, has nonetheless lost its appetite for the kind of contrarian, high-tracking-error managers it retained in the past due to the heightened risks posed by tracking error going forward.

First Super posted last year's 11th best test results, besting its strategic asset allocation's benchmark results by an annualized 76 basis points. It has A$3.6 billion in assets.

Analysts say they see no signs yet of a dramatic move away from high-tracking-error managers or evidence that such managers are trying to reposition themselves as more benchmark-aware in order to sustain their business momentum in Australia.

Anecdotal examples, meanwhile, offer mixed signals at best, as is the case with Orbis Investments (U.K.) Ltd., a London-based manager with £26 billion ($31.8 billion) under management that's succeeded in building a multibillion-dollar book of business in Australia over the years with a battle cry of "There's value in being different."

With tracking error suddenly looking more like an existential threat than a building block of a long-term investment program, Orbis has lost a handful of clients during the fiscal year just ended June 30.

The firm's name has been dropped from the external manager lineups of:

- AustralianSuper, the A$261 billion Melbourne-based industry fund, which listed Orbis as managing A$5 billion in global equities for the fund as of June 30, 2021.
- CareSuper, the A$19 billion Melbourne-based fund, which listed Orbis as managing A$426 million in global equities as of June 30, 2021.
- TWUSUPER, the A$6.2 billion Melbourne-based fund, which listed Orbis as a manager as of June 30, 2021.

Among the three, AustralianSuper aced the performance test, beating the benchmark returns for its strategic asset allocation by an annualized 1.22 percentage points, while CareSuper exceed its benchmarks by an annualized 71 basis points. TWUSUPER, by contrast, passed the test with little room to spare, trailing its benchmark returns by an annualized 47 basis points.

Spokespeople at those three funds declined to discuss Orbis. A spokesman for Orbis likewise declined to comment.

High tracking error

But if tracking error were a factor in those terminations — Orbis' global equity strategy outperformed or trailed its benchmark by double-digits on three occasions between 2016 and 2021 — performance could have been an issue as well. The global equity strategy, after topping its benchmark by 13.14 percentage points in 2016 and 8.75 points in 2017 more recently lagged by 10.51 percentage points in 2018 and 12.24 points in 2021.

The fact that active, high-tracking-error managers often charge clients relatively high fees — an area of sustained regulatory scrutiny in Australia — could be compounding headaches for those managers now, said Morningstar's Ms. Bradley.

Willis Towers Watson's Mr. Grigg agreed: "When you look at it straight away and say, well, we need to get down tracking error and we need to get down fees, anything that's highly active and potentially costing you a lot is where people would naturally start (looking)."

At the end of the day, consultants say they see continued demand for highly active strategies going forward but it will be a more complex environment.

"YFYS does not in-and-of-itself exclude any particular strategy, but it does add an additional dimension to the portfolio construction process," with two risk management exercises now — optimizing the portfolio for long-term strategic risk/reward and for YFYS tracking error and excess return, noted Gwion Moore, Sydney-based head of investment strategy, Pacific, at Mercer LLC.

In that new environment, a contrarian, high-tracking-error manager needs to ask "how does my strategy ... impact strategic portfolio construction (and) how does it impact YFYS portfolio construction," Mr. Moore said. And finally, which super funds could make use of a strategy like that offered by Orbis for both of their optimization exercises, he asked. "I personally suspect most super schemes have YFYS risks that are pro-cyclical, which means that a contrarian strategy could be beneficial from both strategic and YFYS portfolio construction if sized appropriately," he said.

Manageable risk

WTW's Mr. Grigg said his team is pushing clients to focus on overall tracking error, mixing and matching combinations of active strategies in a way that keeps risks at manageable levels as opposed to turning their backs on anything that comes with material tracking error.

BIG PICTURE: Jonathan Grigg encourages clients to look at overall tracking error, not individual ones.

In an equities portfolio, for example, there can be an individual manager with high tracking error but when integrated into a diversified portfolio of managers in the same asset class, "your overall tracking error comes down," Mr. Grigg said.

Frontier Advisors' Mr. Gunn likewise said asset owners willing to take a broader view of tracking error could continue to make use of contrarian, high-tracking-error managers, with a holistic approach to portfolio construction and long-term objectives, "rather than specifically ruling out higher-tracking error strategies upfront as viable strategies under the test."

The greater focus needs to be on "getting the configuration right for a broader range of objectives and understanding risk exposures, rather than a singular focus on reducing higher-tracking-error exposures," he said.

And with that broader view of tracking error, some market veterans say fixed-income segments such as credit could emerge as a winner.

Adam Kibble, investment director, fixed income and multiasset with Schroder Investment Management Australia Ltd., co-authored a paper in December contending super funds grappling with tracking-error concerns should focus more on fixed-income segments like credit, where relatively narrow benchmarks, vis-a-vis broader equity benchmarks, should facilitate outperformance for a given tracking error superior to other segments of the active management universe. So far, amid market volatility and a change of government in Australia which some say could portend tweaks to the new YFYS framework, there hasn't been a noticeable pickup in allocations to credit driven by tracking error considerations, but "when the dust settles and super funds have time to rethink how they allocate tracking error across different asset classes," fixed income could garner greater attention, he said. ■

Regulation

BlackRock, CalSTRS weigh in on SEC's climate proposal

By MICHAEL THRASHER and ARLEEN JACOBIUS

BlackRock, which embraces climate-conscious investing and is pushing other companies to do the same, supports the rules proposed by the SEC requiring climate-related disclosures from public companies. But the money manager has some notes for the regulator.

In a June 17 letter to the SEC, BlackRock reiterated its belief that "climate risk is investment risk" and that related disclosures aligned with the Task Force on Climate-related Financial Disclosures framework should be mandated. However, the firm does not agree with how the SEC has proposed that companies make those disclosures.

"We are concerned that certain elements of the proposal, which go beyond or differ from the recommendations of the TCFD, will decrease the effectiveness of the Commission's overarching goal of providing reliable, comparable, and consistent climate-related information to investors," BlackRock wrote in the letter.

Investors want climate-related information about companies, but the availability and quality of that information varies widely.

It is reasonable to ask companies to report their own impact on the climate, such as their own greenhouse gas emissions, BlackRock said. And the asset manager says its climate-related reporting is aligned with the recommendations of the TCFD.

Requiring public companies to also disclose the impact of their partners presents a huge challenge, BlackRock said. It might be expensive or impossible for partners — many small, private companies — to meet the same regulatory standards the SEC would set for public companies. Public companies could then become unfairly liable for how other businesses operate and even disincentivize private companies from going public, decreasing choice for public market investors, BlackRock's letter said.

Instead of requiring public companies to file a 10-K for all climate-related disclosures, BlackRock suggests that companies be required to file a new "furnished" report, or a form that would limit liability. It would also give companies the "flexibility necessary for continuing development of creative, pragmatic best practices" as better climate-related information becomes available.

Meanwhile, CalSTRS wants the SEC to strengthen its proposed climate disclosure rules, the $314.8 billion pension fund said in its comment letter June 17.

Roughly 60% of companies and assets in CalSTRS' investment portfolio do not report greenhouse gas emissions, said officials at the California State Teachers' Retirement System, West Sacramento.

CalSTRS is asking the commission to include disclosure of Scope 3 emission disclosures for all public companies. Scope 3 emissions are assets that while not owned by the company are assets that the organization indirectly impacts in its value chain.

The proposed rules as currently written only require disclosure of Scope 3 emissions from companies that reference them in targets or determine them to be financially material. The proposal also requires disclosure of public companies to disclose Scope 1 (direct) and Scope 2 (indirect) greenhouse gas emissions.

"Scope 3 emissions give investors important signals about the decisions corporate managers make in day-to-day business," CalSTRS said. These include how a company's product portfolio and design can meet customer demand and market expectations for low-carbon solutions, how much business travel is required to generate revenue, and whether most employees commute to work or work remotely.

"We own nearly 9,000 companies across the value chain representing interconnected business relationships upstream and downstream from each other," the letter said.

The comment period for the proposal ended June 17. Now, the SEC will consider any feedback and decide whether to change the proposal or vote on a final rule.

Arbitration

CONTINUED FROM PAGE 3

The Labor Department noted that Mr. Cedeno alleged fiduciary breaches "that caused losses to the plan extending beyond his own account," which, the DOL wrote, means "'appropriate' relief to remedy those breaches could also extend accordingly."

But the "remedy provision" in the arbitration clause "categorically precludes any participant from seeking recovery for the plan beyond that which would inure to the participant's individual account," the Labor Department wrote, adding that this clause "cut off" an arbitrator's ability to consider the "full range of relief" depending on the context of the fiduciary breach claim.

The DOL declined to comment beyond its amicus brief.

"This has moved toward a bigger policy issue," said Chantel Sheaks, vice president of retirement policy for the U.S. Chamber of Commerce, Washington. "It's a broader issue" than an ESOP lawsuit.

The Chamber filed an amicus brief March 11 supporting the defendants. It asked the appeals court to overturn a November 2021 New York U.S. District Court ruling that the arbitration clause was unenforceable because it failed to protect participants' rights under ERISA. "If the decision is allowed to stand, plaintiffs and their lawyers will be emboldened to pursue wasteful and unnecessary class action litigation," the Chamber's amicus brief said.

Simmering debate

Arbitration clauses in ERISA plans "are getting increased public policy attention," said Lynn Dudley, senior vice president of global retirement and compensation policy at the American Benefits Council in Washington. The legal debate over arbitration clauses "has been simmering for some time," Ms. Dudley said.

The American Benefits Council also filed a March 11 amicus brief jointly with the ESOP Association, Washington, supporting the defendants. "Individualized arbitration strikes an appropriate balance between protecting benefits and encouraging growth of employer-sponsored benefit plans," the amicus brief said. "This court should reverse the District Court and uphold the arbitration provision."

The wording of an arbitration clause was the primary issue in the case in question. Ramon Cedeno, a participant in an ESOP run by Strategic Financial Solutions LLC, New York, sued Argent Trust Co., Atlanta, and other fiduciary defendants in November 2020, alleging they had violated ERISA by purchasing ESOP shares at more than fair-market value and impairing participants' investments. Mr. Cedeno sought class-action status.

The defendants responded that the Strategic Financial Solutions' plan document contains an arbitration clause that governed Mr. Cedeno's individual complaint.

"The defendants argue that a participant in a defined contribution plan does not have the statutory right to seek plan-wide relief and is limited to relief for that participant's individual account," wrote U.S. District Judge John G. Koeltl in New York on Nov. 2, rejecting the defendants' request that the allegations be heard by an arbitrator. "That argument is contrary to the text of ERISA as well as to well-established precedent."

The arbitration clause precluded participants "from seeking relief for the plan as a whole, a form of relief that is otherwise provided for by ERISA," Mr. Koeltl wrote. "The plaintiff has the right under (ERISA) to recover for the plan as a whole. That right is not waivable."

The defendants subsequently appealed to the 2nd U.S. Circuit Court of Appeals.

"In this case, the district court correctly held that arbitration agreements cannot prospectively waive participants' right to pursue ERISA's statutory remedies, including plan-wide relief," the DOL amicus brief said. "The Secretary (of Labor) has a substantial interest in ensuring that participants are not forced to arbitrate under agreements that prohibit the plan-wide remedies that ERISA provides."

DISPUTED: Lynn Dudley believes debate over arbitration clauses has been brewing for awhile.

Reduce litigation risk

Arbitration clauses in ERISA plans have been used by sponsors hoping to reduce the risk of lawsuits, usually related to allegations of excessive fees, poor investment choices and other alleged abuses cited by plaintiffs' lawyers. Arbitration clauses have occasionally been part of other ESOP lawsuits, too.

Rulings in different judicial jurisdictions — at the District Court and appeals court levels — have been inconsistent in determining whether an arbitration clause adequately protects participants' ERISA rights.

No court has ruled that ERISA prohibits arbitration. Until or if that happens, Ms. Sheaks said she doubts the Supreme Court would agree to address a so-called circuit split in which there is clear disagreement among appeals courts. "It's not quite a conflict," Ms. Sheaks said, adding that the various court rulings reflect "fact-driven" differences about whether arbitration clauses are properly written.

Supporters of arbitration clauses say sponsors are using this strategy to counteract a proliferation of ERISA lawsuits. "They weren't doing it just because they wanted arbitration," Ms. Sheaks said, adding that some sponsors that belong to the Chamber have been sued more than once by different plaintiffs.

"I would tell the DOL to step very carefully because they could undermine the very mission that EBSA is supposed to be performing," Ms. Dudley said, referring to the Employee Benefits Security Administration. "ERISA was put in to stabilize the (retirement) system."

Ms. Dudley and Ms. Sheaks added that inconsistent court rulings aren't the retirement industry's only concern about arbitration clauses and ERISA. They point to legislation introduced in the Senate by Sen. Tina Smith, D-Minn., and in the House of Representatives by Rep. Mark DeSaulnier, D-Calif., that would declare arbitration clauses unenforceable in retirement and other benefits plans covered by ERISA.

The legislation would "limit recovery amounts, increase the costs of claims for benefits, and increase the time for courts to resolve claims for benefits," the Chamber of Commerce wrote in a May 18 letter to members of the House Education and Labor Committee.

"The bill will increase costs for small businesses to operate a retirement plan and will lead to more frivolous lawsuits against plan sponsors," said a May 17 letter from the American Retirement Association to the committee's top Democratic and top Republican members.

Thrift

CONTINUED FROM PAGE 3

services, at the investment board's regular monthly meeting June 28.

Mr. Ramos said the call center is now staffed with more than 800 representatives, the most it has ever had. Further, he explained that TSP is working with its communications staff to create a webinar that explains planned terminology and experience changes for participants that should be available in July.

James Courtney, FRTIB director of communications and education, said the TSP is holding off on sending direct email and mail to all participants because it could trigger more calls to an already struggling call center.

FRTIB board member Dana Bilyeu, who expressed her frustration with the rollout issues, asked that Accenture present to the board about lessons learned and plans to address the challenges. "They need to understand that this comes all the way to the board level. The disappointment is at the board level as well and that they need to be able to respond to that," said Ms. Bilyeu, who also serves as the executive director of the National Association of State Retirement Administrators.

'This is critical for us'

Ravindra Deo, executive director of FRTIB, described the ongoing call center problems as a "mess," and assured attendees that Accenture would present to the board. "Tee and his entire team have been in constant communication with the vendor to make sure that they understand that this is job one. I have been in, now, multiple conversations with the head of AFS to make sure that she understands that this is critical for us."

Accenture spokeswoman Donna Savarese said in an email that Accenture "quickly scaled its call centers post go-live, adding hundreds of additional agents."

Ms. Savarese added that Accenture is "providing meaningful and appropriate support to smooth the adjustment period."

Prior to Accenture, TSP was the record keeper and had contracts with various providers for services, including information technology and data center providers, FRTIB spokeswoman Kim Weaver said in an email.

Ms. Weaver said TSP has been working on the concept of the updates for six years. Accenture was selected "as best meeting the agency's needs" in November 2020 and has been in an 18-month transition period, she said.

"This transition is so much more than any other ... projects that we've rolled out," compared with prior transitions such as the implementation of Roth upgrades, Ms. Weaver said, and TSP had support from several consulting firms during the procurement and transition.

Prior to the June 1 launch, Ms. Weaver said "AFS did extensive testing on the system and the conversion went as planned. ... What AFS did not accurately forecast was the volume of calls that would be received."

"While there were a lot of positive outcomes from the transition, we take the inconvenience and difficulty that participants are experiencing very seriously and expect AFS to take every necessary step to address those difficulties," Ms. Weaver said. Since the rollout, a little more than 1 million accounts have been set up, 39,962 loans have been processed and 3,143 mutual fund enrollments have taken place.

The AFS contract has a performance period comprising an 18-month transition period and four, three-year option periods, Ms. Weaver said. FRTIB can exercise the option for an additional three years without further contract actions.

Cannabis

CONTINUED FROM PAGE 1

a "time-intensive process" that involved multiple meetings with different executives in different departments, rounds of questions and even site visits to the company's stores, Ms. Revah said.

Each time she'd talk to a new person, she recalled, "they would come down with just more questions. What exactly," they'd ask yet again, "do you sell?"

Ms. Revah's company had it relatively easy. Unlike CBD Kratom, many cannabis companies sell products that while legal under state law are illegal under federal law, making it impossible to find a 401(k) plan provider willing to work with them.

More states legalize

As more states have legalized cannabis for medical or recreational use and more companies have jumped into the business of selling cannabis products, the retirement plan industry has been taking note. Retirement service providers want to make sure that the cannabis industry's growing workforce has access to a retirement plan — and that they capitalize on the market opportunity.

The Insured Retirement Institute, a trade association for money managers and other financial services firms including insurance companies with record-keeping businesses, for example, is backing legislation — the Secure and Fair Enforcement Banking Act of 2021, or the SAFE Banking Act — that would protect and insulate from liability institutions offering and administering retirement plans or individual retirement accounts for the employees of cannabis companies that are regulated and licensed by a state.

"Without certainty or clarity, retirement plan providers are concerned about the risk of violating anti-money laundering laws if they offer retirement plans for employees of a business that engages in quote-unquote illegal activities under federal law," said Paul Richman, chief government and political affairs officer at IRI in Washington.

AID: Andrew Adams said the SAFE Banking Act provides a safe harbor for cannabis companies.

Without doubt, the legal cannabis industry has been on a tear, posting robust job growth in excess of 27% annually for the past five years, according to the most recent Leafly Jobs Report, an annual analysis of employment in the legal cannabis sector. As of January, it supported 428,059 jobs, employing more cannabis workers than firefighters or machinists or bank tellers or insurance sales agents or even hairstylists, barbers and cosmetologists combined, the report said.

Last year, the cannabis industry created more than 107,000 new jobs, after adding nearly 33,000 in 2019 and more than 77,000 in 2020. Still, the industry is nowhere near its employment potential, with Leafly projecting a total workforce of approximately 1.5 million to 1.75 million workers once the legal cannabis market in the U.S. hits maturity.

With such strong job growth, the retirement industry wants to make sure that it will be able to help cannabis workers "save for their retirement at their workplace as other workers would do," Mr. Richman said.

For now, though, the retirement industry has its hands tied. With cannabis considered an illegal drug under federal law, record keepers are steering clear of cannabis-related businesses even if operating legally under state law. The Bank Secrecy Act and other federal laws that govern financial institutions are preventing them from serving cannabis companies because "there's a worry over being involved in and assisting in what would be considered money laundering," said Andrew Adams, a senior associate and leader of the labor and employment practice group at DarrowEverett LLP in Boston.

"What's holding them back is the fear that their regulators are going to come after them," he said.

Mr. Adams explained that taking cash from workers in a federally illegal business and then "reformatting that into a stock" or equities in a mutual fund offered in a 401(k) plan could be construed as money laundering.

Mr. Adams also noted that the Bank Secrecy Act requires record keepers to file suspicious activity reports with the Department of Treasury's Financial Crimes Enforcement Network when an institution suspects any kind of crime relating to fraud or funds being derived from unlawful or illegal activities.

Financial institutions that fail to comply with the monitoring and reporting regulations are subject to civil and criminal penalties, including fines and regulatory restrictions, Mr. Adams said.

State-run plans

In some states, cannabis companies may be able to sign up with state-run retirement savings programs. In California and Oregon, for example, cannabis companies are not exempt from a state mandate requiring employers to either provide an employer-sponsored plan or participate in the state-facilitated program.

California's CalSavers program has 86 cannabis-related businesses participating in its program, all of them licensed with the state's Department of Cannabis Control. Oregon's OregonSaves program has 60 such businesses, all registered with the Oregon Liquor and Cannabis Commission.

State-run programs, however, offer a limited solution. For now, passage of the SAFE Banking Act seems to be the most direct way to get at the problem that cannabis companies are facing. The legislation provides a safe harbor provision that exempts financial institutions from being liable under any federal law or regulation solely for providing a financial service to a cannabis company, Mr. Adams said.

"It prohibits the regulators from penalizing, discouraging or restricting these financial institutions from providing banking services or re-investment services to legitimate cannabis-related businesses," he said.

The legislation, which passed in the House in April 2021 and on five previous occasions, is now in the Senate, where it will likely be packaged with the Cannabis Administration and Opportunity Act, a bill that would legalize and regulate cannabis at the federal level. The sponsors of the Cannabis Administration and Opportunity Act — Sens. Chuck Schumer, D-N.Y., Ron Wyden, D-Ore., and Cory Booker, D-N.J. — are expected to introduce the bill this summer.

"It is not a certainty, but Senators Booker and Schumer have stated that they would not support SAFE without CAOA or broader reform," Mr. Adams said.

CBD Kratom's Ms. Revah supports passage of the SAFE Banking Act, saying anything that would reduce the questions that her company experienced would be welcome news for the cannabis industry.

"The SAFE Banking Act just totally makes sense," she said. ■

People

CONTINUED FROM PAGE 6

effective Oct. 1, according to a statement on the asset manager's website.

CIO **Matthew Beesley** will succeed him as CEO and as a board director, subject to regulatory approval. Mr. Beesley is immediately promoted to deputy CEO and a board member. He will retain his CIO responsibilities during the transition, the statement said.

Mr. Beesley joined Jupiter in January 2022 as part of its succession planning, the statement said. Before that, he was CIO of Artemis Investment Management, where he was succeeded by **Paras Anand** in March.

A Jupiter spokeswoman said a search for Mr. Beesley's replacement as CIO is underway.

Mr. Formica became Jupiter CEO in March 2019, replacing Maarten Slendebroek. He joined Jupiter after serving as co-CEO of Janus Henderson Group, following a merger between Henderson Group and Janus Capital. Co-CEO Richard Weil was later named sole CEO of the combined company.

He will remain involved until June 30, 2023, and help with strategic objectives that include developing its offerings in the Australian market.

Jupiter had £55.3 billion($72.6 billion) in assets under management as of March 31.

Natalie A. Brown was named CEO of Mesirow, replacing **Richard S. Price**.

She assumes the position on July 1, confirmed a company spokesman in an email.

Ms. Brown is the firm's sixth CEO in Mesirow's 85-year history and is the first female to fill the role.

Ms. Brown joined the firm in 2018 and most recently was president, a position she will retain, the spokesman said.

Mr. Price, who has worked at Mesirow for 50 years, will serve as executive chairman and will continue to work on organizational strategy, civic and community engagement, and the firm's focus on diversity, equity and inclusion.

Mesirow managed $50.6 billion as of March 31.

Bruce S. MacDonald was named chief investment officer of VCU Investment Management Co., spokesman Lucas Hall said in an email.

Mr. MacDonald will replace **Nancy Everett**, who will remain CEO, Mr. Hall said.

Ms. Everett has been both CEO and CIO of the investment management company since its formation in 2015 to manage the assets of Virginia Commonwealth University, Richmond, and its affiliated entities, which includes endowment assets.

As of May 31, the company had $1.9 billion in assets under management, Mr. Hall said.

Mr. MacDonald has been deputy CIO of VCU Investment Management Co. since its inception.

QI Wang was promoted to chief investment officer of portfolio implementation at Pacific Investment Management Co., effective immediately.

The position is new, confirmed Michael Reid, a company spokesman.

Ms. Wang joined PIMCO in 2010 and most recently was managing director and portfolio manager, positions she retains.

In her new role, Ms. Wang oversees analytics firmwide as well as two newly created teams — portfolio implementation, and data structure and delivery.

The teams will work with PIMCO's portfolio and risk managers to "strengthen the integration of technology, analytics, risk management and execution into PIMCO's investment decisions," the firm said in a news release June 29.

Andrew Formica

Natalie A. Brown

Qi Wang

Ronda Stegmann

In another internal move, PIMCO promoted **Sudi Mariappa**, managing director and portfolio manager, to global head of analytics, replacing **Ravi K. Mattu**, managing director, who will retire from day-to-day duties and serve as a consultant to PIMCO, Mr. Reid said.

Mr. Mariappa previously was PIMCO's global head of portfolio risk management activities, the news release said. He has been replaced by **Josh Davis**, managing director and portfolio manager.

"Qi will lead this collaborative effort to ensure all (of) PIMCO's portfolio management teams draw on our deep quantitative and analytical resources to capitalize on the increasing array of investment opportunities we now see in global markets," said Daniel Ivascyn, PIMCO's group CIO, in the release.

PIMCO had $2 trillion in assets under management as of March 31.

Thomas F.X. Powers and **T. Williams Roberts III**, partners and co-presidents of GW&K Investment Management, were named co-CEOs of the firm effective July 1, a spokeswoman said in an email.

They replace **Harold G. Kotler**, who is stepping aside as CEO and has been named chairman of the firm. Mr. Kotler, a founder of the firm, will continue to serve on the executive committee.

Messrs. Powers and Roberts will continue in their prior responsibilities, the spokeswoman said.

Mr. Powers currently oversees sales, marketing and relationship management, and Mr. Roberts oversees business operation functions, including finance and compliance.

As of March 31, GW&K had $51 billion in assets under management.

Terrill J. Sanchez was named executive director of the Pennsylvania Public School Employees' Retirement System, Harrisburg.

The $75.9 billion system's board voted at its meeting June 17 to appoint Ms. Sanchez as the system's permanent executive director, spokeswoman Evelyn M. Williams said in an email.

Ms. Sanchez had been serving as interim executive director since January when outgoing executive director **Glen R. Grell** transitioned to a senior adviser role before retiring on Feb. 28.

Ms. Sanchez had retired as executive director of the $39 billion Pennsylvania State Employees' Retirement System, Harrisburg, on Dec. 31.

In November, PennPSERS' board voted to accept the retirements of Mr. Grell and Chief Investment Officer James H. Grossman Jr. following a federal investigation of the system over an error in its reported investment figures that was discovered by the board.

Ronda Stegmann will retire as executive director of Missouri State Employees' Retirement System, Jefferson City, in 2023.

Ms. Stegmann joined MOSERS in 2015 as its legislative and policy coordinator and was named interim executive director in January 2018 before taking on the permanent job in June of that year, MOSERS said in a news release on June 24

MOSERS' board of trustees will soon commence a search for its next executive director and "will work with Ms. Stegmann to ensure a smooth transition," the release added.

MOSERS had $9.5 billion in assets as of March 31, according to spokeswoman Candy Smith.

Kevin O'Donnell was named executive managing director of the private funds group at Cresset Partners.

It is a new position, a spokesman said in an email. Based in the New York area, Mr. O'Donnell reports to **Eric Becker** and **Avy Stein**, co-founders and co-chairmen, the spokesman said.

Mr. O'Donnell will lead Cresset's private equity, private credit and venture capital efforts for "global private investing in external funds, co-investments and related opportunities, in partnership with leading third-party private asset managers," a news release said June 27.

He was previously head of private equity for Saudi Arabia's Public Investment Fund, Riyadh, where he led the sovereign wealth fund's $80 billion global private markets investment program, the release said.

PIF had $620 billion in assets as of January, according to the Sovereign Wealth Fund Institute.

Cresset Partners has about $27 billion in assets under management.

CHANGES AHEAD

Iowa Public Employees' Retirement System, Des Moines, is searching for an operational due diligence services provider and managed account platform provider. The $43.7 billion pension fund issued two RFPs due to a state law that requires it to put services up for bid every six years, said Shawna Lode, IPERS spokeswoman, in an email. The operational due diligence service provider will evaluate managers in the pension fund's non-custody investment programs, including private markets funds, liquid absolute-return strategies and portable alpha strategies. The RFPs are available on IPERS' website. Proposals are due on July 15 and July 22 for the due diligence and manager account providers, respectively. The managed account platform provider would implement IPERS' alternative risk premium and liquid absolute-return strategy programs. Ms. Lode noted this is not for hedge fund consulting services, but for a provider to "implement a turn-key solution to support the administration and management of a diversified group of LARS managers and internally managed ARP program as an overlay to the IPERS Trust Fund."

HAVE SOME NEWS?

Please submit news of changes to Kevin Olsen, managing editor, at kolsen@pionline.com

DeKalb County, Decatur, Ga., is searching for an investment consultant for its $233 million 457 plan and $17 million 401(a) plan. The county is seeking an investment consulting firm to provide ongoing services as well as assist in the creation of a future RFP for a record keeper for the plans, according to an RFP posted on the county's website. Proposals are due at 3 p.m. EDT on July 28.

Chicago Metropolitan Water Reclamation District is searching for an investment consultant for its $346 million 457 plan. The district is seeking a consultant that will provide ongoing semiannual performance evaluation of the plan's investment options, provide research and recommendations for any new or replacement options, conduct a one-time review of the plan's investment policy and assist in the development of a request for proposals for a record keeper, according to an RFP posted on the district's procurement website. Proposals are due at 11 a.m. CDT on July 29.

Texas Comptroller of Public Accounts, Austin, is searching for an investment consultant for the Texas Prepaid Higher Education Tuition Board. The comptroller's office is seeking a firm to advise the board and the comptroller on administering all of the board's investment activities related to the plans it oversees, which include the state's $1.3 billion Texas Tuition Promise Fund, $731 million Texas College Savings Plan, $396 million Texas Guaranteed Tuition Plan, $221 million LoneStar 529 Plan and $15 million Texas Achieving a Better Life Experience Program, according to an RFP posted on the comptroller's website. Proposals are due at 2 p.m. CDT on Aug. 3.

Pennsylvania Public School Employees' Retirement System, Harrisburg, is searching for a non-discretionary private markets consultant and a firm to provide private markets investment back-office services. The $75.9 billion pension fund issued a new RFP for both private markets consulting services and investment back-office services due to the upcoming expiration of Hamilton Lane's contract on Sept. 14, spokesman Steve Esack said in an email. Hamilton Lane is invited to rebid, he added. The selected private markets consultant would assist the pension fund in its private equity, private real estate, private infrastructure and private commodities asset classes, according to the new RFP. The RFP on the state's procurement website. PennPSERS will accept proposals for either or both the private markets consulting services and back-office services. Proposals are due at 5 p.m. EDT on Aug. 8.

Alaska Retirement Management Board, Juneau, is searching for up to three active international equity managers to run a total of up to $822 million. The board at its June 16 meeting approved the recommendation of investment staff and investment consultant Callan to conduct the search, said Alysia D. Jones, liaison officer, in an email. The board currently utilizes four active international equity managers and staff recommended searching for one to three additional active managers to run up to 40% of the assets currently run by the four incumbent managers. Ms. Jones said an RFP will not be issued, but interested managers are invited to contact Callan, which is assisting in the search. The board oversees the management of a total of $40.5 billion in defined benefit and defined contribution plan assets.

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

TWUSUPER

CONTINUED FROM PAGE 4

reiterate that mantra.

The size difference matters, Mr. Byres said, with trustees of the industry's largest funds able to "lower fees and costs, access higher-yielding investments and better attract new members — a virtuous circle."

He insisted APRA isn't taking a simplistic "big is good, small is bad" approach, noting in passing that there are small funds doing well for their participants.

"But overall," Mr. Byres said, "it's difficult to get away from the fact that size, translating into economies of scale, helps deliver better member outcomes, and trustees that can't compete on that basis need to think very hard about how (and whether) they can deliver in their members' best financial interests, now and into the future."

Suzanne Smith, APRA executive director of superannuation, speaking after Mr. Byres at the same event, used a maritime metaphor to drive home the point in relation to the 105 APRA-regulated super funds with less than A$10 billion in retirement assets out of a universe of 145 funds: "They're 'gonna need a bigger boat' if they wish to remain competitive, and the quickest way to achieve this is through a successor fund transfer — ideally with a large, well-performing fund," she said.

Aran Anderson

SIZE MATTERS: Wayne Byres believes that larger funds can help deliver better outcomes for participants.

Small fund advantages

TWUSUPER's Mr. Smith, while conceding that scale gives big funds considerable advantages, noted that smaller funds likewise enjoy advantages, such as the ability to pursue capacity-constrained alpha opportunities that a fund with A$100 billion or A$200 billion would be hard-pressed to exploit.

Regulators "certainly have a point that being subscale makes it more challenging to compete, but we have a belief that with the right skill set and the right approach we can compete," he said, adding "we have to do our best to demonstrate that."

To adapt to the new Your Future, Your Super environment, TWUSUPER has made a considerable effort over the past 18 to 24 months to "reconfigure the investment strategy to optimize … our position as an investor," leveraging opportunities where the fund's relatively modest size can be turned to its advantage, Mr. Smith said.

During the fiscal year ended June 30, 2021, the fund hired State Street Global Advisors and BlackRock Investment Management (Australia) Ltd. for passive equity mandates with environmental, social and governance overlays that lifted the portfolio's passive exposure to 20% from zero, he said.

Likewise, the fund has continued to add boutiques focused on liquidity-constrained market segments to its lineup of just under 35 external managers, Mr. Smith said. Over the past two years, for example, TWUSUPER hired a trio of small-cap and microcap equity boutiques: two Sydney-based managers, Spheria Asset Management during the year ended June 2020 and Eiger Capital during the year ended June 2021, followed this year by Melbourne-based Bell Asset Management. Mr. Smith declined to provide mandate sizes.

Mr. Smith pointed to TSUSUPER's June 17 hiring of J.P. Morgan Asset Management for a global bond mandate, benchmarked against the government-designated Bloomberg Global Aggregate Bond index, as a final piece of the puzzle, albeit a tricky one to put in place amid a critical mass of market uncertainty.

The JPMAM mandate, the size of which Mr. Smith declined to reveal, reduces a tactical short position for duration — effectively an enhanced cash strategy — that had been working in TWUSUPER's favor in a rising-rate environment.

"We have been very conscious that bond yields were likely to rise, without knowing that inflation was going to jump up to 8% or more. … Blind Freddy could have told you that bond yields were going to rise when yields in many countries were negative or around zero, so we've been underweight to bonds," he said.

With those enhanced cash strategies making up a good portion of the fund's bond exposures, that segment of TWUSUPER's portfolio has done better than the Bloomberg Global Aggregate as rates have rebounded — "not a huge amount but every little bit counts," Mr. Smith said. That, in turn, should contribute to the fund's performance in this year's performance test, he noted.

But if enhanced cash positions worked in TWUSUPER's favor considerably this year, "now that bond yields have adjusted, the priority becomes more focused on the tracking error component of it," which calls for normalizing the portfolio's returns from bonds going forward, he said.

Lingering concerns

TWUSUPER's decision to fund the JPMAM mandate was accompanied by "a little bit of hand-wringing" amid lingering concerns bond yields could still have considerable room to climb from current levels, Mr. Smith said.

But "my sense is that markets have now broadly anticipated the future path of cash rates and, if anything, they've probably been a little bit pessimistic," he said.

Current yields have "pretty much factored in a pretty aggressive path for cash rates going forward, and therefore there's no reason to think that the rapid rise in bond yields we've seen over the last three months is going to continue (at) anything like the same rate," he predicted.

"It sometimes takes a bit of nerve because you're buying something that's actually just had a really dreadful run," but decisions like this are when "you really measure your worth as an investment manager," he said.

The fund's move to reposition its bond exposures is "kind of the last step" in reconfiguring TWUSUPER's portfolio, said Mr. Smith, adding that with those risk-off exposures in place, "we have the portfolio set precisely where we want."

Going forward now will be the test of whether being more flexible and nimble, "and being able to take reasonably specialized exposures," will be enough to compensate for the higher cost base that comes with lower scale, Mr. Smith said.

TWUSUPER's most recent annual report for the fiscal year ended June 30, 2021, showed the fund's default MySuper balanced fund with an asset allocation of 27.2% international equity, 23.8% Australian equity, 10% international fixed interest, 9.5% infrastructure, 8.6% property, 8.2% unlisted equity, 6.4% cash/interest-bearing securities, 3.6% absolute-return funds and 2.7% Australian fixed interest. ■