

# Pensions & Investments

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CRAIN COMMUNICATIONS

## Pension Funds

# Funds react to inflation, slowdown

### Institutional investors revamp assumptions and asset allocations

By ARLEEN JACOBUS

Asset allocations adopted in the midst of a 40-year run of low inflation and sinking bond yields may be in need of a rework in the new higher inflation normal.

After the Federal Reserve launched one of the most aggressive interest rate boosting cycles in

decades amid soaring inflation, investors are having to come to terms with the new economic environment, which some say could be heading toward stagflation.

That shift is also impacting their asset allocations, industry insiders said.

"I think our asset allocation is wrong," said Sung Won Sohn, a board member of the \$21.5 billion Los Angeles City Employees' Retirement System, at its June 13 meeting. LACERS officials plan to embark on an asset allocation study early next year.

#### RELATED CONTENT

- Casey Quirk/P&I survey shows private markets, LDI gains. **Page 3**
- European asset owners try different strategies to fight inflation. **Page 34**

LACERS' asset allocation, adopted by the board three years ago, falls short because it was based on expected continued low inflation and a low interest rate, said Mr. Sohn, who is also a professor of finance and economics at Loyola Marymount University, Los Angeles.

"The world does change," he said. "I felt inflation would be very high" when the board was in the midst of the last asset review three years ago. "I wish I was wrong."

Pension funds and other asset owners are having very different conversations. This year, investors and their consultants are concluding they need to make sure their return expectations and their asset class choices are in line with new economic realities.

So far this year, the \$309.3 billion California State Teachers' Retirement **SEE ALLOCATIONS ON PAGE 34**

## Regulation

# SEC in-house enforcement faces a day of reckoning

By BRIAN CROCE

The U.S. Supreme Court will hear a case in its next term that has the potential to end the Securities and Exchange Commission's use of in-house judges to adjudicate enforcement proceedings, a move that would likely cause procedural headaches at the SEC, sources said.

The Supreme Court on June 30 agreed to hear *Jarkesy vs. SEC*, a case challenging the constitutionality of the SEC's administrative law judges, or ALJs, which handle administrative enforcement cases in-house.

The SEC petitioned the court to review the case following a May 2022 decision from the Fifth U.S. Circuit Court of Appeals in New Orleans that sided with the plaintiff and ruled that the SEC's ALJ system was unconstitutional. Specifically, the decision found that the SEC's use of ALJs violated the right to trial by jury, that Congress unconstitutionally delegated to the SEC the power to decide whether securities fraud cases were heard in federal courts or before an ALJ, and that the removal protections given to SEC ALJs were unconstitutional because the president couldn't simply fire them.

The court's next term begins in October. A date for oral arguments has yet to be announced.

"What's looming is the possibility of losing the ability for **SEE ENFORCEMENT ON PAGE 33**



Illustration by Michael Glenwood

## SPECIAL REPORT INVESTMENT OUTSOURCING

# Investors' needs for OCIO managers evolving amid volatility, tech changes

### Demand puts burden on managers to adapt to customization requests

By BAILEY McCANN

More types of institutional investors are increasingly interested in whole-portfolio OCIO solutions, putting the onus on managers to adapt to a highly customized environment.

Previously, OCIOs may have only been recruited to manage alterna-

#### MORE ON INVESTMENT OUTSOURCING

- Volatility, complex markets buoy demand for OCIO. **Page 14**
- Demand growing, but hiring not necessarily easier. **Page 15**
- DC plan sponsors increasingly turning to OCIO. **Page 18**

tives or some other specialized mandate, but that trend has given way to a more integrated relationship managing the entire portfolio.

"We're seeing demand for outsourced whole-portfolio solutions

across institutional, wealth management and retail," said Ryan Marshall, managing director and co-head of BlackRock Inc.'s multi-asset strategies and solutions group in New York. "It's also a global trend. The uptick in interest is coming from institutional investors and wealth managers in America and Europe — and increasingly Asia. It's one of the fastest growing areas of asset management."

Other sources agree the shift to whole-portfolio solutions is notable.

**SEE OCIO SHIFT ON PAGE 18**

## Investing

# Bonds back in vogue on higher returns

### Equity premium declines with rising interest rates

By ROB KOZLOWSKI

U.S. pension funds are looking to take advantage of a regime change in fixed income that offers higher long-term returns than they have seen in the past decade.

And while these asset owners and their investment consultants are tempering their enthusiasm given the uncertainty around the end of the Federal Reserve's rate-hiking cycle, they see solid opportunities ahead.

"As we debate the end of the rate-hiking cycle, this is an opportunity for fixed income to find its footing and to enjoy the new higher coupons, the income that is the primary portion of total return for a fixed-income investor, and then finally potentially put behind us the headwinds of a rate-hiking cycle," said Joanna Bewick, Pittsburgh-based senior vice president at Wilshire Advisors LLC, in a phone interview.

Ms. Bewick said the enthusiasm that investors felt for fixed income

**SEE FIXED ON PAGE 35**



**RATE CYCLE:** Wilshire's Joanna Bewick

## SOUND BITE

CALPERS CEO **MARCIE FROST:** "There's no common definition of environmental, social and governance factors. It's being weaponized." **Page 3**



## Inflation doesn't mean bigger pension

When high inflation hits, states don't rush to offer COLAs for retirees, sometimes opting for one-time payments. **Page 3**

## IN THIS ISSUE

VOLUME 51, NUMBER 11

## ESG

BlackRock CEO Larry Fink said he no longer uses the term ESG due to the growing political backlash against the concept in investing. **Page 6**

## Exchange-traded funds

The first physically backed gold ETP in the U.S. went from regulatory filing to launch in 18 months, while spot bitcoin products have been toiling for years. **Page 13**

BlackRock's surprise application to offer a spot bitcoin ETF kicked off a mad scramble among institutional players to file their own applications. **Page 31**

## Hedge funds

From Chinese property developers to Ukrainian sovereign bonds to Turkish cement makers, Gramercy invests in emerging markets globally. **Page 4**

## Pension funds

Two big Ohio public pension plans take different approaches to offering cost-of-living adjustments. **Page 32**

## Private equity

Market veterans say liquid private equity strategies could be set to gain broader acceptance after years in the money management wilderness. **Page 6**

## Departments

At deadline.....	32	ETFs.....	13
By the numbers.....	25	Hirings.....	26
Changes ahead.....	35	Other views.....	10
Classified.....	28	Reporters notebook.....	8
Corrections.....	4	RFPs.....	28
DC roundup.....	12		

### Hedge funds survey out; DC strategies and RE managers coming soon

■ *P&I* has launched its annual survey of **hedge funds**, with responses due by July 28. Managers will be ranked by their total worldwide hedge fund assets and by the amount of assets managed for institutional investors. Results will run Sept. 25. To request a survey or obtain further information, please contact Christine Williamson at [cwilliamson@pionline.com](mailto:cwilliamson@pionline.com) or 773-415-5217.

■ *P&I* will also be distributing the annual survey of **defined contribution strategies** around July 24 with responses due by Aug. 18. Firms managing proprietary mutual funds, ETFs or target-date strategies for U.S. institutional, tax-exempt DC plans are eligible to participate. Results will run Sept. 25.

■ *P&I*'s annual survey of **real estate investment managers** will be distributed around Aug. 7 with responses due by Sept. 1. Firms managing private real estate assets or REIT securities for U.S. institutional, tax-exempt clients are eligible to participate. Results will run Oct. 9. To request a survey or obtain further information, please contact Anthony Scuderi at [ascuderi@pionline.com](mailto:ascuderi@pionline.com) or 212-210-0140, or visit [www.pionline.com/section/surveys](http://www.pionline.com/section/surveys).

## Investing

# Japan finally wins over foreign equity investors

Institutions ready to bet on Japanese equities after decades of dwindling flows

By NATALIE KOH and SOPHIE BAKER

Prompted by corporate governance reforms in Japan, a stable inflationary environment and structural changes to the labor market, some foreign investors are finally buying into the long-term potential of Japanese equities after seven consecutive years of falls in foreign flows.

Japanese equities have surged dramatically since the start of the year, with the Nikkei 225 up more than 30% year-to-date. That's a dramatic reversal of the index's performance in 2022, with a 9.4% loss. Sources said Japanese equity mar-

kets are now trading at levels last seen at the end of the 1980s.

The surge has been led by foreign investment, as cumulative net weekly flows into Japanese equities by foreign investors since the start of 2012 reached ¥5.9 trillion (\$41.1 billion) year-to-date after a steady decline from its 2015 peak, according to the BlackRock Investment Institute.

Cumulative net flows from foreign investors into Japanese equities reached a peak in mid-2015 with ¥25.1 trillion of inflows, but fell consistently throughout the years, hitting a low of ¥2.9 trillion in outflows by the end of March this year, according to BlackRock data.

Despite compelling numbers relative



**STEADY:** Thomas Poullaouec said Japan is expected to stick with its unconventional rates.

to history, investors are split on whether the current surge marks the start of a long-term trend, or are another short-term, tactical play. What sources did agree on, however, was that significant improvements in governance among Japanese corporates can only be a positive thing.

BlackRock Inc., with \$9.43 trillion in assets under management, wrote in a June 26 commentary that it was rethinking its modest underweight on Japanese stocks due to a more shareholder-friendly approach from Japanese companies and a loose monetary policy.

Additionally, T. Rowe Price Group, which has \$1.35 trillion in AUM, is holding

SEE JAPAN ON PAGE 29

## Defined Contribution

## Student loans back on radar after ruling

Experts say sponsors should help employees so they can still save

By COURTNEY DEGEN

As millions of Americans begin repaying student loans this fall, plan sponsors should think about ways to help employees pay down their education debt while still saving for retirement, industry players said.

The U.S. Supreme Court ruled June 30 to block President Joe Biden's student loan forgiveness program in a 6-3 decision. If enacted, the Biden administration's program would have forgiven up to \$10,000 in federal student loan debt for individuals making under \$125,000 a year or households making under \$250,000, and up to \$20,000 in student loan debt for Pell Grant recipients.

Because of the COVID-19 pandemic, student loan payments have been frozen for the past three years, so resuming payments is "obviously going to be a real challenge for millions of people," said Amanda Hahnel, Boston-based vice president and head of student debt retirement at

SEE STUDENT ON PAGE 29

**CONTRIBUTION:** Diego Martinez cited an existing Abbot Laboratories program that helps its employees still save in the 401(k) plan.



Ciara Cusseau

## Pension Funds

## Oklahoma pension funds brace for deadlines to divest

By MARGARIDA CORREIA

Oklahoma pension funds are weighing their options as deadlines loom to divest holdings with 13 financial firms said to be boycotting energy companies, a situation that could lead to a showdown with state officials.

The 13 financial firms, which include BlackRock Inc. and State Street Corp., were named in a list released by Oklahoma Treasurer Todd Russ on May 3.

Executive directors of the pension funds are considering taking an exemption from the divestment mandate, while also assessing which of the unlucky 13 firms stand any chance of being removed from Mr. Russ' list.

The investment committee of the

\$10.8 billion Oklahoma Public Employees Retirement System, the pension fund with the largest exposure to the blacklisted firms, for example, has already recommended that the board take a broad fiduciary exemption permitted under the Energy Discrimination Elimination Act of 2022, a law that punishes firms for factoring environmental, social and governance issues in their investment decision-making.

The exemption allows state governmental entities to essentially ignore any requirement they determine is inconsistent with their fiduciary responsibility.

If OPERS does not take the fiduciary exemption, it will need to begin the divestment process as early as late August, as will all other pension funds that

forgo the exemption.

The law requires the pension funds to terminate contracts with the blacklisted firms and ask non-blacklisted managers to remove investments in the blacklisted firms, including publicly traded securities.

Without taking a fiduciary exemption, Oklahoma City-based OPERS would have to execute an extreme divestment as it employs both BlackRock and State Street Global Advisors as money managers, which jointly account for 63.5% of the pension fund's portfolio, or approximately \$6.9 billion, Executive Director Joe Fox said in an email.

BlackRock currently advises several mandates totaling about \$6.3 billion, SEE OKLAHOMA ON PAGE 30

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**Pension Funds**

# Inflation doesn't always produce a bigger pension

States don't rush to offer COLAs, sometimes opt for one-time payments

By **ROBERT STEYER**

Following the Great Recession and extending into the low-interest-rate environment of the 2010s, state legislatures reduced, suspended or eliminated cost-of-living adjustments among public plans in the name of protecting pension systems' health.

Their record is decidedly more mixed during the recent run-up in inflation and interest rates, rejecting COLAs for underfunded pension plans and offering one-time supplemental payments to retirees as a compromise between COLAs and nothing.

"My general observation is that it seems to be politically easier to re-

duce COLAs when interest rates and inflation are low," said Keith Brainard, the Georgetown, Texas-based research director of the National Association of State Retirement Administrators. As inflation has spiked, "legislatures have been slower" to adjust COLA provisions or make changes to one-time payment policies, he added.

Inflation presents a dilemma to legislators and pension board executives because they don't know how long or how severe inflation will last, he said. "The longer inflation lasts, the greater the pressure" to restore or increase COLAs, he said.

"There's a strong narrative about the health of pension plans," said Jean-Pierre Aubry, associate director of state and local research at Boston College's Center for Retirement Research, describing the balancing act between strengthening public pension

SEE COLAs ON PAGE 32



**LEERY:** Keith Brainard said states have been slow to revise COLAs amid high inflation.



**BIG CHANGE:** Marcie Frost said CalPERS would have to divest \$9.4 billion in fossil fuel holdings if the bill were to become law, and it would be the pension fund's largest-ever divestment.

Rudy Meyers

**Pension Funds**

## CalPERS CEO readies for divestment bill's return

Marcie Frost expects fossil fuel divestment bill that pension fund opposes to return next year

By **ARLEEN JACOBIOUS**

A California bill that would require the two largest public pension funds in the U.S. to divest from fossil fuels may be on hold but it's not dead yet, said Marcie Frost, CEO of the California Public Employees' Retirement Sys-

tem, Sacramento.

"It will likely come back" in the next legislative session, Ms. Frost said July 13 in a talk with *Pensions & Investments* at the TIDE SPARK 2023 conference in Dana Point, Calif.

The bill's author is "very committed," Ms. Frost said.

The measure would mean that the \$458.9 billion CalPERS would have to shed about \$9.4 billion in fossil fuel holdings, which would be its largest-ever divestment, and as of Jan. 1, CalPERS would no longer be able to invest capital in fossil fuel-related assets, Ms. Frost said. CalPERS would also lose the opportunity as a shareholder to engage with companies to push them along on their ener-

SEE FROST ON PAGE 31

**Investing**

# Casey Quirk/P&I survey shows private markets, LDI gain over passive

By **DOUGLAS APPELL**

Institutional asset owners see bigger allocations to private markets and liability-driven investments in their future, with the bulk of those gains coming at the expense of passively managed equity and bond holdings, according to a survey by Casey Quirk, Deloitte's

asset management strategy consulting business, in partnership with *Pensions & Investments*.

The "Future of Investment Management" survey of roughly 80 asset owners and consulting firms, conducted between February and April, showed the more than 65 asset owners that responded expecting alternatives to grow to 17% of their

portfolios in five years' time from 13% at present, and LDI exposures to rise to 26% from 23%.

By contrast, responding asset owners expect their holdings of passively managed equity and fixed income to tumble to 21% of their portfolios from 29% at present.

Actively managed equity and fixed income, meanwhile, are ex-

pected to gain only marginally over that span, with their weight in portfolios edging up to 32% from 31%. Cash, the final piece of the investment puzzle, will hold steady at 3%.

After a decade of inexorable growth for passive assets under management, buoyed by extraordinary monetary policy support that favored beta over alpha, Casey

Quirk executives called the survey's latest data point intriguing but warned that it may be too early to draw far-reaching conclusions.

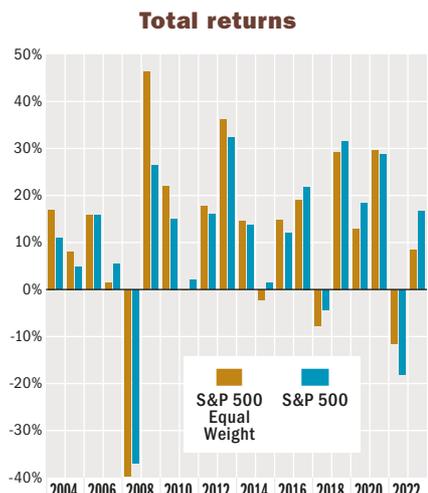
If the material drawdown in passive allocations the survey points to comes to fruition, it would prove an "inflection point ... but this is one where you'd like to see it hold up for

SEE SURVEY ON PAGE 33

## Large stocks driving S&P 500's gains

Following a year in which the S&P 500 lost 18.1%, the index has rebounded to return 16.7% through July 11. The gains haven't been distributed evenly, though, with 156 stocks outperforming the overall index, creating high growth expectations for some stocks and sectors that may not continue. For broad-based active portfolios, this could present an opportunity to outperform passive accounts should the situation reverse.

**Larger stocks outperform:** The S&P 500's 16.7% total return topped the S&P 500 Equal Weight index's 8.4% return through mid-July, a reversal from the previous two years.



**Top 10:** Year to date, eight of the 10 top-weighted stocks in the S&P 500 have outperformed the overall index — including three stocks that have more than doubled.

Stock	Index weight	YTD return*
Apple	7.5%	45.2%
Microsoft	6.7%	39.3%
Amazon.com	3.1%	53.3%
NVIDIA	2.8%	190.2%
Tesla	2.0%	119.0%
Alphabet Class A	1.9%	32.8%
Meta Platforms Class A	1.8%	147.9%
Berkshire Hathaway Class B	1.7%	11.2%
Alphabet Class C	1.6%	32.7%
UnitedHealth Group	1.2%	-12.0%
All others**	69.9%	9.0%

**Sector variability:** Weights of the information technology and communication services sectors — which have returned 41% and 36.2%, respectively, so far this year — are much higher in the S&P 500 index than in its equal-weighted counterpart. However, the P/E ratio for the IT sector has grown to 30 from 20, and the multiple for communication services has increased to 21, up from 15 at year-end.

Sector	Weight in S&P 500	Weight in S&P 500 Equal Weight	Year-to-date return*	Current P/E*	Change from year-end 2022
Industrials	8.5%	15.5%	11.89%	21	-1
Financials	12.4%	14.0%	0.73%	15	+2
Health care	13.4%	13.1%	-3.51%	17	+1
Information technology	28.3%	13.1%	40.98%	30	+10
Consumer discretionary	10.7%	10.9%	33.82%	32	+6
Consumer staples	6.7%	7.2%	0.38%	21	-1
Real estate	2.5%	6.1%	5.53%	19	+1
Materials	2.5%	5.8%	6.59%	16	+2
Utilities	2.6%	5.8%	-5.04%	20	-
Energy	4.1%	4.5%	-3.40%	8	-1
Communication services	8.4%	4.0%	36.24%	21	+6

\*As of July 11. \*\*Average return. Some totals may not sum to 100% due to rounding. Sources: Bloomberg LP, State Street Global Advisors, S&P Dow Jones Indices LLC

Compiled and designed by Larry Rothman and Gregg A. Runburg

## Hedge Funds

# Gramercy founder sees more dislocations, volatility



From Chinese property to Turkish cement makers, Gramercy invests globally

By ERIN ARVEDLUND

Emerging markets have evolved into a markedly different asset class than 25 years ago, when Robert Koenigsberger founded Gramercy Funds Management LLC. And “the theme I have the most conviction on today is volatility. It will continue,” said the founder of the firm with \$5.3 billion in assets un-

der management.

Since its founding in 1998, Gramercy has grown from a boutique emerging markets debt firm into an investment adviser with multiple hedge funds, separately managed accounts and a multiasset fund that represents best picks from four hedge fund strategies — long-only emerging markets debt, alternative credit, special situations, and capital lending/private credit in emerging markets.

“What emerging markets were back then (in 1998) were countries and corporations in default,” said Mr. Koenigsberger, the Greenwich,

Conn.-based managing partner and chief investment officer of the firm which he launched in the wake of Russia’s debt crisis.

“The first decade we were a hedge fund. We chased the financial flus around the world, starting with the tequila crisis, Asian debt crisis, vodka crisis, tango crisis,” he said. “Now, we’ve gone from being a hedge fund that’s relevant some of the time to a product suite relevant all the time.”

That includes Gramercy’s global multiasset portfolio, or GMAP, which pension funds have invested in “because it can prevent them

from being whipsawed by the volatility” of emerging markets debt, he said.

With the assistance of a pension fund consultant, Gramercy created separately managed accounts a decade ago to offer returns from best ideas among its four strategies.

“Pension funds often get emerging markets wrong. A lot of them get washed out,” he said.

Over the past 25 years, emerging markets experienced at least 11 major dislocations, he said, the two most recent being COVID-19 and Russia’s invasion of Ukraine in 2022.

“Markets dropped on average 20% each time, but the good news is they’re back up 18 to 24 months later. Then consultants say ‘look how great returns are,’ and pension funds allocate at the end of the cycle,” missing the bulk of the gains, he said. A composite return of its sovereign and quasi-sovereign positions across its flagship and other diversified strategies, since inception, has been 18% annually, through the peaks and valleys of all those dislocations, according to an investor. Gramercy’s AUM has risen to \$5.3 billion as of June 30 from \$4.6 billion in 2020.

“What we do hear from pensions is ‘don’t buy this country. We lost money there.’ And many pension boards, for example, don’t want China risk. That’s the most common worry now. A lot of people got burnt on sanctions against Russia in equity and fixed income. Now China is definitely the question we get the most: Is it investible or not? Do we want to own China after what just happened to us in Russia? That’s more relevant than frontier or non-frontier.”

He added that he has “every reason” to think dislocation will continue, whether specific to one country or systemic such as COVID-19.

“There’s clearly been a change in policy regime. The Fed’s facing a tri-lemma,” he said, that is, lowering inflation without undue damage to economic activity while maintaining financial stability. If and when the U.S. dollar turns weaker, that may also act as a tailwind for emerging markets.

“We expect volatility and dislocations. It’s great if you anticipate it and embrace it. It’s compelling.”

For example, Gramercy sold out of Russian and Ukrainian debt just a few months prior to the February 2022 invasion. The firm’s analysis in late 2021 correctly predicted Russia would invade a few months later.

“We owned zero Russian and Ukrainian sovereigns before the invasion,” he said, although Gramercy has since started buying Ukrainian

SEE GRAMERCY ON PAGE 30

Pensions & Investments

## Influential Women in INSTITUTIONAL INVESTING

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**FIRESIDE CHAT ALERT!**

Sallie Krawcheck  
CEO & Co-Founder  
Ellevest

**Leadership Today – How to Get on the Fast Track to Where You Want to Be and Who You Want to Be with the Least Amount of Career Friction.**

Known as the “Most Powerful Woman on Wall Street” Sallie Krawcheck shares her leadership insights on what helped propel her to be one of the first women to break the glass ceiling in the male-dominated investment industry. By launching Ellevest, a digital investment platform for women, she hopes to close the gender investing gap in the U.S. Join this **fireside chat interview** to learn more about Sallie’s many achievements throughout her career and the lessons learned during some of the failures along the way. She will cover the following:

- Does achieving likeability at the job help or hinder a woman’s career?
- Avoiding the “F” word – Facing failure head-on and when to avoid it at all costs
- There’s no Fairy Godmother to save you – Taking charge of a woman’s financial freedom
- The Sky’s the Limit – How to maintain your sanity in the climb to the top
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### CORRECTIONS & CLARIFICATIONS

■ **Target Corp.’s** pension plan was 102.1% funded last year and pension liabilities totaled \$3.616 billion. Incorrect information was on “The funded status of corporate pension funds” table on page 15 in the May 8 issue. Target should have ranked 46th by funding ratio.

# Public Funds

## Navigating A New World

September 19-20, 2023 | Scottsdale



Make sure to mark your calendars because this September, a captivating event awaits you in the vibrant state of Arizona. Join us at P&I's Public Funds Conference and get ready to immerse yourself in a transformative experience as you have the incredible opportunity to hear from an exceptional gathering of esteemed public pension officials. By registering now, you secure your place in an exclusive, closed-door environment where you can forge meaningful connections with distinguished speakers. This unique setting will foster an atmosphere of collaboration and exchange, enabling you to delve deep into conversations and make new connections.

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## Private Equity

# Liquid private equity strategies showing signs of momentum

Market veterans think replication funds could gain broader acceptance

By DOUGLAS APPELL

Following years on the fringes of the money management wilderness, liquid private equity strategies could be edging at last toward the industry mainstream, market veterans said.

People are increasingly “embracing the idea that there’s a way to replicate the same risk and return characteristics that you find in private equity with listed securities,” opening the door for more conversations with institutional asset owners, said Jeffrey F. Knupp, president of Chicago-based private equity replication boutique DSC Quantitative Group LLC.

Among those conversing now: the \$458.9 billion California Public Employees’ Retirement System.

CalPERS contacted DSC — whose founding in 2012 makes it one of the oldest kids on the private equity replication block — to explore the kind of role these strategies can play as a complement to the pension fund’s announced plans to boost allocations to segments such as venture capital, Mr. Knupp said.

Spokespeople for Sacramento-based CalPERS didn’t immediately respond to requests for comment.

Private equity replication managers mix exposures to publicly listed equities with leverage to match the returns asset owners garner by investing in diversified portfolios of privately owned companies, with the added charms of vastly greater liquidity and sharply lower fees.

Some also hedge their portfolios to simulate direct private equity’s relatively steady performance during periods of market turbulence that results, in part, from more glacial price discovery. Others opt to take advantage of the day-to-day pricing information offered by publicly traded shares. That difference has found a number of managers enjoying similar success when the market has rallied — for example, roughly matching the 28% gain of the Refinitiv Private Equity Benchmark index in 2021 — while reporting more scattered results for years of market stress such as 2022.

Proponents of private equity replication strategies see potential demand from big asset owners with broad-based private equity and venture capital programs accelerating as well as from smaller institutional, high-net-worth and even retail investors lacking the scale to construct well-balanced exposures.

“This is a nascent space, but we

think we’re on the cusp of something really big” — in the same way private equity secondaries became a distinct market segment over the past 15 years, said Jean-Louis Lelogeais, who co-founded Boston-based liquid private equity boutique PEO Partners LLC in 2019 with Harvard Business School professor Randy Cohen, in a recent interview. Mr. Cohen, in the same interview, predicted potential demand for replication strategies could eventually be in the “hundreds of billions of dollars.”

It’s a “trillion-dollar idea just waiting to happen,” agreed Allan Seychuk, vice president and senior investment director of alternative investments with Mackenzie Investments. The Toronto-based firm launched a liquid private equity offering for Canadian investors two and a half years ago in tandem with PEO Partners.



**ON THE VERGE:** Jean-Louis Lelogeais likened liquid private equity to secondaries 15 years ago — “we’re on the cusp of something really big.”

For big institutional investors, private equity replication strategies help “solve the illiquidity and capital allocation problem,” allowing them to garner private equity-like returns while their commitments are called down and distributions are put back to work, Mr. Seychuk said. For smaller institutions or individual investors, it helps solve the problem of access to an asset class they would otherwise not have sufficient scale to invest in, he said.

Mackenzie’s liquid private equity fund currently has roughly C\$220 million in assets under management. PEO Partners’ AUM, which includes a U.S. fund and the Mackenzie assets it provides advisory services to, comes to roughly \$180 million. DSC, Mr. Knupp said, manages “a few hundred million” in private equity and venture capital replication assets.

## Where is the demand?

Opinions vary on whether institutional or retail investors are likely to drive the pickup in demand over the next few years.

Michael Even, who served as CEO of Numeric Investments when that quant firm was developing the private equity replication strategy it launched in May 2018, said integrating a portfolio of publicly traded stocks into a private equity program comes with its own set of organizational chal-

lenges for institutional investors.

“It’s not 100% clear,” for example, where private equity replication fits within a broader asset allocation framework — whether the private equity team or the public equity team would have ownership, he said.

So, while uses such as managing liquidity for private equity commitments or recycling distributions should attract institutional interest, finding internal champions willing to push ahead could remain a hurdle, potentially making retail investors a stronger near-term prospect, said Mr. Even. Since retiring from Numeric in 2017, he has been serving on a number of boards and advisory committees.

Mr. Seychuk said his team anticipates interest from both institutional and retail investors in Canada for MacKenzie’s strategy but he expects institutional demand will lead the way.

Mackenzie’s track record is still six months shy of the three-year numbers needed to populate institutional databases but once it crosses that threshold “we expect ... interest to really pick up,” with rising institutional flows signaling to retail investors that liquid private equity should be of interest to them as well, he said.

If the demand side of the liquid private equity equation looks set to gather momentum now, the supply side could likewise be poised to move beyond the handful of firms — including DSC, MacKenzie, Numeric Investments, PEO Partners and Boston-based Verdad Capital — which have led the way until now.

Those boutiques, with combined assets under management of roughly \$1 billion, could come to be seen as just the “tip of the iceberg” in the not-too-distant future, predicted Mr. Lelogeais, citing a “long list of serious people ... working on this now.”

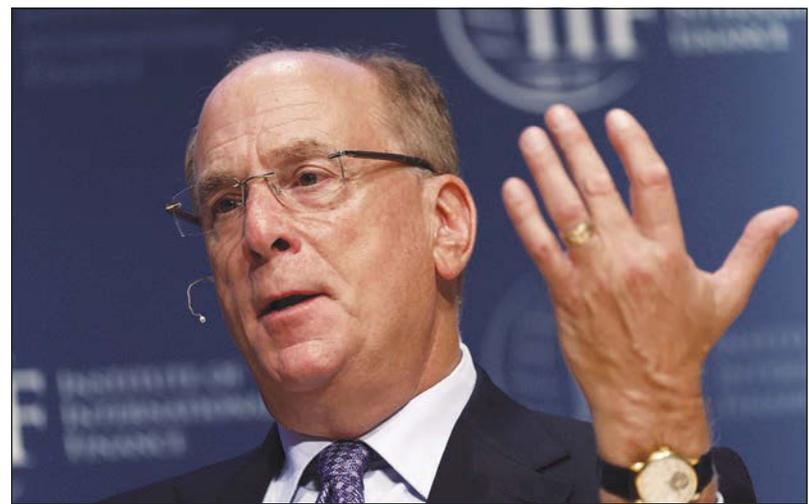
The evidence? Multiple conversations this year with investment veterans at bulge-bracket money management firms who cut off market intelligence exchanges with PEO Partners on the basis of plans to bring out their own liquid private equity strategies, saying “hey, we have a lot of respect for you guys (and) we don’t want you to feel like we stole your ideas,” Mr. Cohen said.

Mr. Lelogeais, while declining to name the firms looking to launch strategies now, welcomed the competition, saying the space remains nascent enough to leave the focus on creating a market rather than fighting to become a bigger fish in a very small pond.

“In some sense, we want everybody to succeed,” Mr. Lelogeais said.

The strategies currently on offer

SEE LIQUID ON PAGE 19



**CRUCIAL:** Larry Fink said ESG has been weaponized despite it being a long-term issue.

## ESG

# BlackRock’s Fink says he’s done using the term ESG

CEO cites political backlash against considering certain factors when investing

By CHEYENNE LIGON

BlackRock CEO Larry Fink said he no longer uses the term ESG — shorthand for environmental, social and governance — due to the growing political backlash against the concept in investing.

During a fireside chat with David M. Rubenstein, co-chairman of global private equity firm Carlyle Group Inc., at the Aspen Ideas Festival on June 25, Mr. Fink said the term has been “entirely weaponized” by both the “far left” and the “far right,” according to a recording of the conversation.

“I’m not blaming one side or the other, but it has been totally weaponized,” Mr. Fink said. “In my last CEO letter, the phrase ESG was not uttered once because it’s been unfortunately politicized and weaponized.”

The comments represent something of an about-face for Mr. Fink, who, along with his firm, have become the face of ESG investing over the past several years. But BlackRock has increasingly come under fire from politicians and activists on both sides of the aisle, who have alternately accused Mr. Fink and his firm of pushing a “woke” agenda and harming the oil and gas industry, and not doing enough to divest from fossil fuels.

Republican governors and other state officials have pulled billions of dollars in public pension funds out of BlackRock to punish it for its ESG efforts, while activists on the left have targeted BlackRock and its executives with public protests against the firm’s climate impact.

Earlier this year, BlackRock began providing home security services, including security guards and improved home security systems, to both Mr. Fink and President Rob Kapito, citing “potential threats to their safety that have originated in connection with their roles.”

Mr. Fink told Mr. Rubenstein that BlackRock’s business had lost \$4 billion in mandates as a result of the political debate over ESG investing, which he described as “90% misinformation.”

However, Mr. Fink stressed that

the money the firm lost from Republican states was more than made up for by other institutional inflows.

“We had one of the best years ever,” Mr. Fink said of 2022. “But I’m ashamed of being part of this conversation. When I write these (CEO) letters, it was never meant to be a political statement. I don’t believe they were written as a political statement. They were written to identify long-term issues for our long-term investors.”

Mr. Fink later walked back his statement that he was “ashamed” to be part of the ESG debate in response to a question from a reporter.

“I write about stakeholder capitalism, and I’m a big believer that you have to focus on all of your stakeholders,” Mr. Fink said. “So, there’s nothing to be ashamed about (ESG). I just don’t use the word ESG anymore. I’m not going to use the word ESG because it’s been misused by the far left and the far right.”

When asked to clarify how the term had been

misused by the far left, Mr. Fink said: “They don’t care that it’s not my money. They’re asking us to do things that we’re not permitted to do, and they would like us ... to decarbonize,” Mr. Fink said. “That’s not my money. I mean, if our client wants to decarbonize, we’re willing to work with them and help them in that pathway. We’re investing in more decarbonization technology than we ever had in the last two years. But we’ve worked with our asset owners in blue states and red states and our job is to be working with them and helping them build a long-term solution.”

During the wide-ranging conversation, Mr. Fink stressed that BlackRock’s focus was on the long term, telling the audience that 55% of BlackRock’s \$9.1 trillion in assets under management is retirement assets.

“The problem is most of the narrative and financial markets is the tick-tock of the day,” Mr. Fink said.

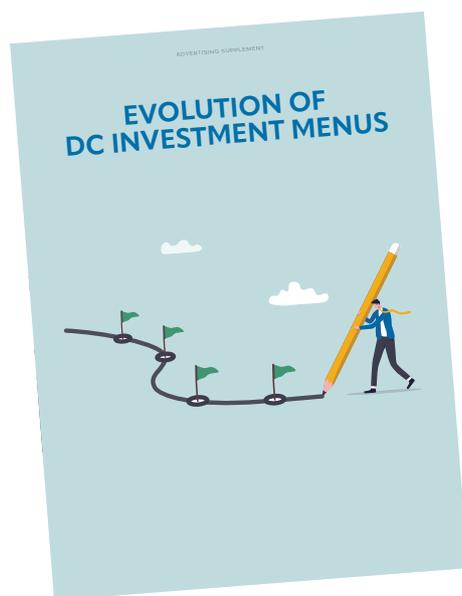
“The reality is, if the markets go up or down any one year, it has very little bearing if your liability is a 30-year liability of retirement,” Mr. Fink added.

“That was the fundamental foundation of all the 12 (CEO) letters that I wrote so far, which were all about long-term issues that I believe would impact positively to all the owners of our assets.”

## RELATED CONTENT

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## REPORTERS NOTEBOOK

## NOT A RETIREMENT PARTY

## Alabama's David Bronner reaches 50 years as retirement fund CEO

When David Bronner started as CEO at the Retirement Systems of Alabama 50 years ago, he said the pension fund had less than \$1 billion in assets.

Today, RSA oversees about \$50 billion in assets, which includes the Teachers' Retirement System and Employees' Retirement System.

Mr. Bronner, who holds a law degree and a doctorate from the University of Alabama, took on the state's retirement system at only 28 years old. He said this was an atypical move, as many heads of public pension funds at the time were previously politicians, just entering their roles in their 50s and 60s.

Over the last 50 years, Mr. Bronner said the biggest change he's seen in the retirement industry is its growth, noting, "The bigger you

become, in your state, the bigger that you're going to have more difficult and damning problems to deal with," such as politicians going after the fund in down times or the greater need for a more talented investment team.

The job of CEO is "basically a daily challenge," Mr. Bronner said, which is part of the reason he's stayed for so long. While RSA was 25% funded when Mr. Bronner started, it reached fully funded status in 2001, and is now down to about 70%, he said.

He cited the other reason for staying as being able to help those less fortunate, and "changing their lives without them knowing it."

At the age of 78, Mr. Bronner has no plans of his own to retire, adding, "I get bored easily." "It's really not work to me," he said. "It's



**LEGACY:** David Bronner took over Alabama's retirement system when he was only 28 years old.

excitement and (an) opportunity to make, in my case, a little better Alabama."

— COURTNEY DEGEN

## BEST IN CLASS

## MIT emerging manager program takes top honors in Clade survey

The \$25 billion management company of the Massachusetts Institute of Technology's endowment was named as having the "best emerging manager program" in a survey by the global fintech platform Clade of its institutional clients.

MITIMCO's success is credited to its track record for backing new fund managers, providing intellectual capital to help them scale, and identifying lucrative investment trends. The firm bested competitors such as the \$458.9 billion California Public Employees' Retirement System, Sacramento; Durham, N.C.-based DUMAC, which manages Duke University's \$12.1 billion endowment and other long-term investment assets; the \$94.7 billion Massachusetts Pension Reserves Investment Management Board in Boston; the \$179.4 billion Texas Teacher Retirement System in Austin; and the \$248.5 billion New York State Common Retirement Fund in Albany.

"Joel Cohen and the whole MITIMCO team are a remarkable example of how intellectual horsepower, calculated risk-taking and heterodox manager selection can come together for a winning trifecta," said Jonathan Lipton, CEO of Clade.

Other takeaways from the survey:

- 61.7% of all institutional LPs will only invest in an emerging manager if their assets under management are more than \$100 million.

- Well over half of all new investment allocations will go to fund managers with DEI characteristics.

- More than 50% of LPs require at least four meetings with a GP before making an investment.

- Most often, LPs "ghost" GPs simply because they can't get through their email inbox.

Clade's fintech platform is used by over 400 institutional allocators, representing more than \$3.6 trillion.

— MARCUS BARAM  
Crain Currency

## 13TH ROUND

## California teams with Mexico to distribute boxers' DB benefits

The California State Athletic Commission has teamed up with the Consulate General of Mexico in San Diego to locate beneficiaries of the Professional Boxer's Pension Fund.

The commission sponsors the pension fund, which was launched in 1982 and is the only pension fund for boxers in the world.

The commission reached out to the consulate earlier this year since many former boxers' last known addresses were in Mexico. Former and retired boxers who have fought in California are eligible for benefits — which average \$17,000 — when they are at least 50 years old and have fought in a minimum number of professional rounds in the state.

One issue is outreach for eligible boxers who may be unaware of the pension fund, which has about \$4.6 million in assets.

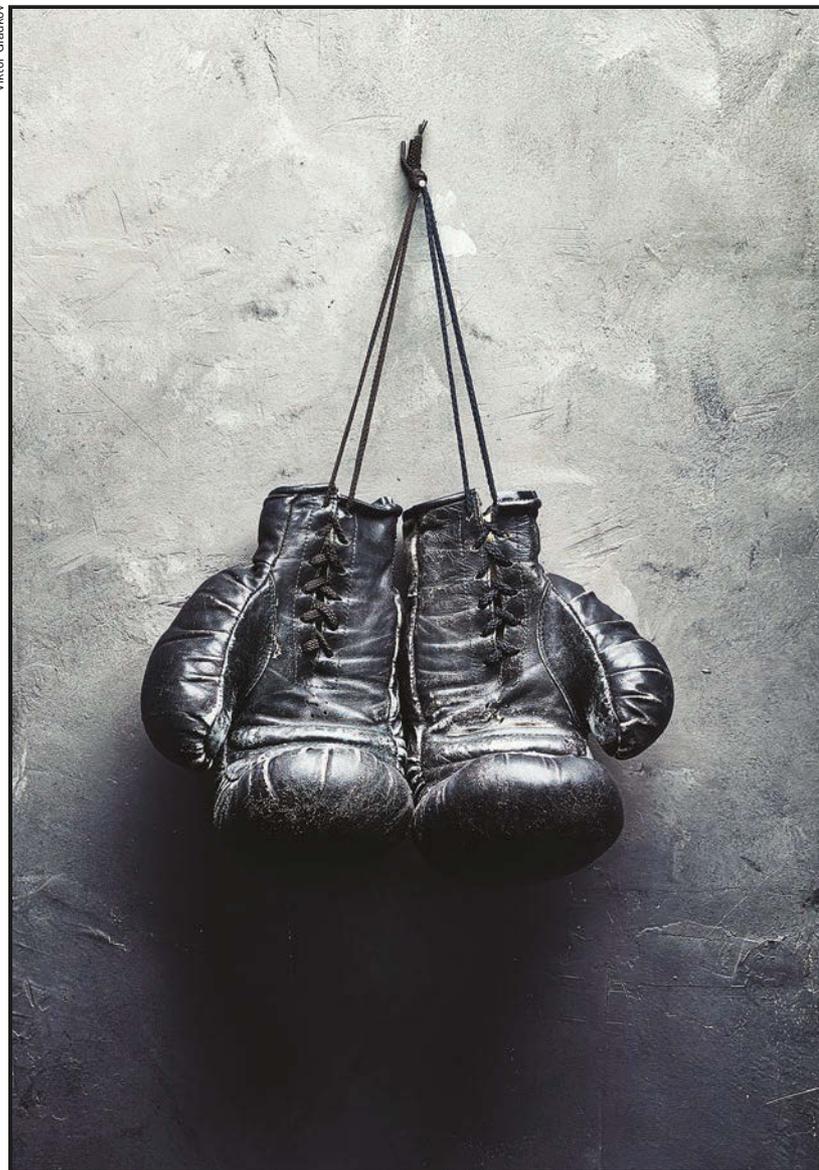
"Reaching former and retired boxers, especially those in other countries, comes with its challenges," commission spokeswoman Monica Vargas said in an email. "While CSAC does its best, information on file provided by the boxers may be outdated and CSAC has been working on additional resources to locate boxers and get updated contact information."

A total of nearly 200 boxers meet the criteria for eligibility. The consulate was able to locate 23 of those boxers, four of whom have already received their checks.

"CSAC is grateful to the Consulate of Mexico, Secretary of Foreign Relations Office of Mexico, the World Boxing Council and many others for their efforts to reach former boxers through their networks and resources," Ms. Vargas said.

The commission has published a list of boxers they are seeking on its website.

— ROB KOZLOWSKI



## NEXT-GENERATION BUSINESSES

## Wisconsin fund calls on familiar name for investment director gig

The Wisconsin Economic Development Corp. has enlisted former pension fund executive Gregory T. Williamson to oversee its newly created \$50 million Wisconsin Investment Fund.

Mr. Williamson, who previously served as chief investment officer of BP America Inc., Chicago, and director-trust investments, the Americas, BP PLC from 2008 to 2015, and CIO of American Red Cross, Falls Church, Va., from 2015

to 2017, was named senior investment director of the new fund.

The Wisconsin Investment Fund was announced in March as an effort to boost innovative, young businesses in the state and will partner with venture capital managers who will identify investment opportunities within the state. The venture capital manager will match the state's investment in each company,

according to WEDC's website.

"WEDC is excited by the opportunity to establish the Wisconsin Investment Fund to invest in the next generation of iconic Wisconsin businesses," spokesman David Callender said in an email. He declined to comment further. Mr. Williamson referred questions to Mr. Callender.

Initial capital for the Wisconsin Investment Fund comes from the U.S. Treasury Department's Small Business Credit Initiative, which was part of the American Rescue Plan Act of 2021.

Mr. Williamson was most recently a managing director at Exos Financial.

— ROB KOZLOWSKI



**NEW ROLE:** Gregory T. Williamson will oversee the Wisconsin Investment Fund.

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Take action now and register for P&I's DC West to confront the challenges posed by SECURE 2.0 deadlines in the ever-changing regulatory environment. Plan sponsors from various sectors are currently wrestling with a shared concern - finding effective solutions to comply with impending SECURE 2.0 requirements, especially when it comes to demanding tasks like website redesign and streamlining internal payroll processes.

Although SECURE 2.0 provides general guidance on coverage and methods to enhance retirement savings, specific questions regarding processes remain unanswered. Join this session to gain insights into crucial unresolved issues and discover potential new regulatory directives that may address them. **Don't miss out on this opportunity to proactively address the hurdles associated with meeting SECURE 2.0 deadlines.**



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OPINION



OTHER VIEWS CHRISTINE CAPPABIANCA

# Identifying, measuring alpha in gender factors

The research into diversity and its impact on financial performance has been widely reviewed and accepted. After years of building an extensive internal gender data set, we decided to conduct our own research to see whether there might be more to that outperformance. We at Impax dug deeper, applying quantitative analysis to each of



**Christine Cappabianca** is vice president and portfolio manager, systematic strategies, at Impax Asset Management. She is based in Portsmouth, N.H.

the factors in our proprietary gender score in order to answer one question: Do companies that promote gender equity in leadership and workplace practices have better prospects for delivering alpha?

Our analysis found that workplace equity factors — specifically pay equity and diverse talent pipeline initiatives — emerged as the most significant gender-related factors correlating with company performance. Also, one leadership factor — women in management — has been one of the biggest indicators of company outperformance or contributors to alpha.

The criteria in Exhibit 1 are the primary components of the Impax Gender Score, which we use to rank each company in the MSCI World index.

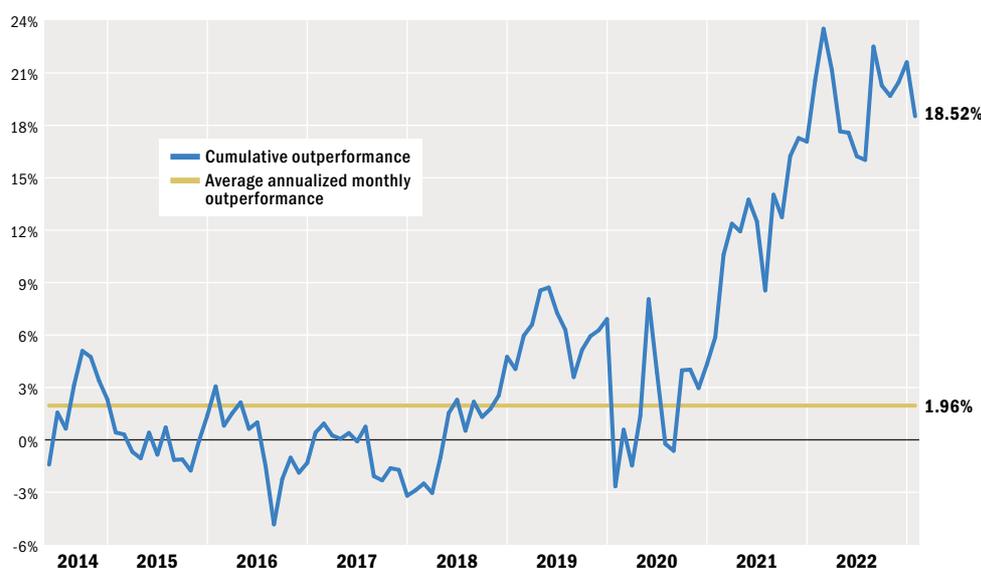
**Gender leaders outperform gender laggards:** Analysis of our growing data set has yielded fresh

## Exhibit 1 Factors in Impax Gender Score

LEADERSHIP FACTORS	WORKPLACE EQUITY FACTORS
Women in executive management	Demographic data disclosure
Women on the board	Diversity targets
Female CEO	Diverse talent pipeline initiatives
Female CFO	Pay equity initiatives
Female board chair	Signatory to U.N. Women's Empowerment Principles

## Exhibit 2 Impax Gender Score: A strengthening trend

Cumulative excess returns, gender 'leaders' vs. 'laggards'



Data shown are the equal-weighted, cumulative monthly excess return of the top quartile of MSCI World index companies vs. the bottom quartile, based on their Impax Gender Score for the period of June 30, 2014, to Feb. 28, 2023. Source: FactSet

insights into the impact of individual factors. With other potential drivers stripped away, we were able to determine which factors provided the strongest alpha signals over time.

First, we looked at the Impax Gender Score rankings and measured the performance of the "leaders" (MSCI World index companies with equal-weighted scores in the top 25%) vs. the "laggards" (bottom 25%).

Exhibit 2 shows the difference in cumulative excess returns between the two groups from June 2014 to February 2023.

Gender leaders have delivered significantly higher returns than gender laggards, particularly since 2020. Annualized monthly returns for these companies were, on average, 2 percentage points higher for the period.

SEE CAPPABIANCA ON NEXT PAGE

## OPINION

OTHER VIEWS CONRAD DOENGES and JEFF DALTON

## Sustainability is essential to small companies for strategic growth, too

Big companies are in the spotlight as their positions on environmental, social and governance themes continue to be scrutinized by pro- and anti-ESG advocates alike. In contrast, small companies operate mostly under the radar, underanalyzed by Wall Street and underreported by the news media. Their progress on sustainability initiatives is less understood.

Yet sustainability matters to small companies as well. Based on meetings with executives at publicly traded small- and microcap companies, most are increasingly engaging on sustainability issues as part of their strategic growth plans.

As an example, across our investment strategies, the percentage of companies that published sustainability reports rose to 42% in 2022 from 29% a year earlier.

This significant investment of time and resources from small-company executives demonstrates a commitment to establishing ESG goals and priorities. What accounts for the growing embrace by small American companies on sustainability initiatives? For one, leaders at these companies are increasingly aware of the potential financial returns and impact of their plans. The enhanced disclosures explaining efforts at incorporating sustainability objectives can help all stakeholders get a better sense of how they manage ESG risks and opportunities in their businesses.

Engagements with small companies have provided the following insights, based in part on surveys done of our portfolio companies over the past two years to learn how they manage environmental and social factors in their businesses.

First, in conversations with management teams, most managers believe executing on their sustainability goals strengthens the culture and mission of their companies. It resonates with employees and has the potential to lower employee turnover over time. In a post-COVID world, many employees have a broader sense for how work fits into their lives, and they have a stronger desire to work for a company that places a priority on its larger role within the community. Less turnover can result in revenue opportunity from better customer service and lower training costs.

Second, we rarely found a management team that shies away from these initiatives because of cost. Most managers view the proposals as an investment in the growth of the business with a marginal cost that can enhance shareholder returns.

Third, in the age of social media there is heightened scrutiny on whether a company is genuinely serving its community. Most managers believe that better disclosure around corporate practices resonate with customers and other stakeholders.

In our inaugural climate survey of 49 companies in 2021, more than 70% of the respondents consider their management of climate-related factors to be a competitive advantage. In 2022's inaugural DEI/human capital survey, fully 100% of the 47 companies surveyed in 2022 indicated management of DEI/human capital factors can be a competitive advantage. Consider, for example, if a company indicated that another business factor, such as a nimble supply chain, gave them a key operational edge and created the opportunity for better inventory returns. Most asset managers would agree they would do themselves and their clients a disservice by ignoring that



Conrad Doenges is portfolio manager and chief investment officer, and Jeff Dalton is manager of sustainable investing and risk analysis at Dallas-based Ranger Investments, a small- and microcap equity manager.

data in their analysis of the company.

Relevant topics, ranging from board oversight and structure, executive compensation, leadership diversity, and energy/resources usage to employment recruitment and retention programs, are brought up in nearly half of our management meetings. This is the highest number since we began gathering data on sustainability issues in 2019. Management teams are initiating these conversations more often, which indicates the increased prioritization across our coverage universe.

Contrary to popular belief, asset managers that integrate financially material analysis into their process typically don't make broad exclusions to their investment universe because of some viewpoint or "agenda" on a particular topic or issue. And the political controversy caused by an acronym could diminish research on business strategies and obscure the fact that small companies are grappling with issues of sustainable advancement because they are financially material for their ongoing and future operations. It would be foolhardy for their investors to do otherwise.

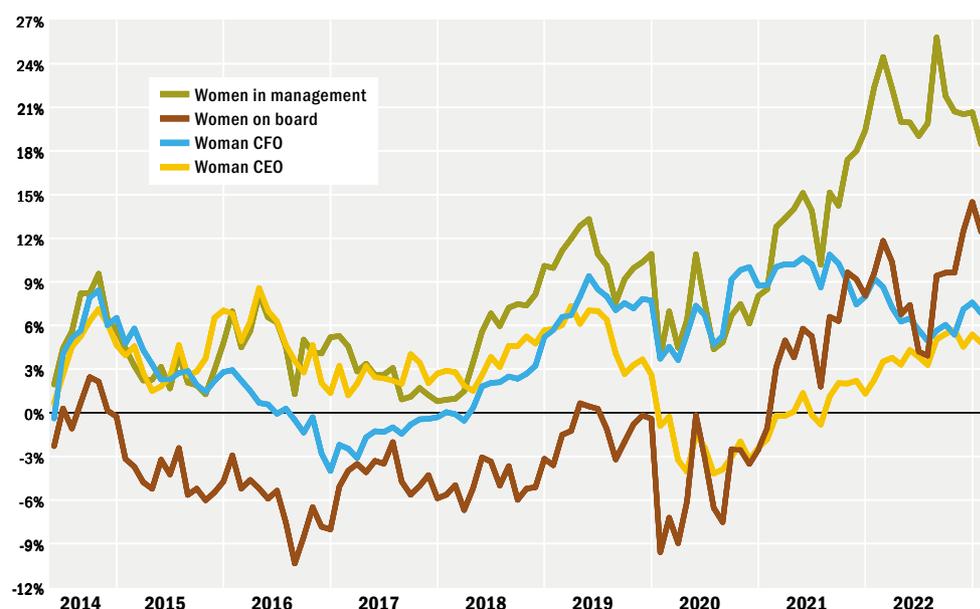
Unfortunately, the pro- and anti-ESG rhetoric is unlikely to subside any time soon. As such, both companies and investors can play a role in clearing the air to promote a deeper understanding of how the integration of meaningful sustainability initiatives into company strategy and investor decision-making can lead to better financial and social outcomes. For example, effectively managing climate risks will help companies minimize long-term costs and business risk. Managing DEI/human capital factors can help improve employee turnover and lower costs, while building a positive company culture. Successfully managing these factors optimizes their ability to attract and retain key stakeholders.

ESG is now a lightning rod and politicized symbol of divisiveness among constituencies. While that acronym may serve as a perceived symbol of an agenda, the coinage for many fundamental investors is rooted in analyzing and identifying companies with quality financial metrics and operational best practices. By keeping the focus on material risks and opportunities, companies and investors can cut through much of the superfluous commentary and home in on topics that are important to enhancing shareholder value. Engaging on sustainability matters is mutually beneficial as a reinforcement mechanism to keep these objectives grounded in financial materiality.

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

## Exhibit 3 Gender-diverse leadership: Management matters

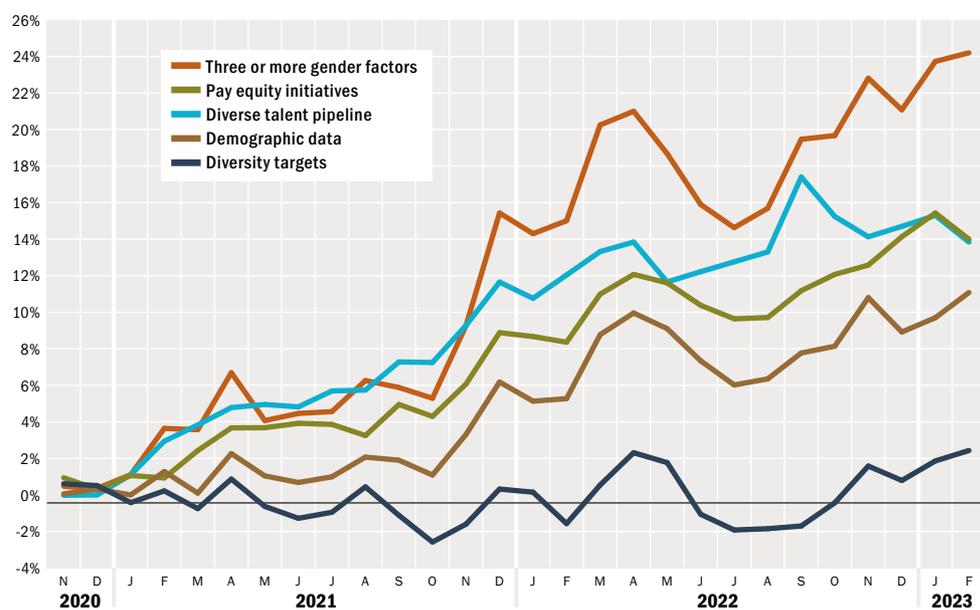
Cumulative excess returns, gender 'leaders' vs. 'laggards'



Data shown are the equal-weighted, cumulative monthly excess return of the top quartile of MSCI World index companies that do or don't meet the following gender leadership criteria — women on board, women in management, woman CFO and woman CEO — vs. the bottom quartile, based on their Impax Gender Score for the period of June 30, 2014, to Feb. 28, 2023. Source: FactSet

## Exhibit 4 Culture counts: Pay equity and diverse talent

Cumulative excess returns, gender 'leaders' vs. 'laggards'



Data shown are the equal-weighted, cumulative monthly excess return of the top quartile of MSCI World index companies that do or don't employ the following policies or practices — pay equity initiatives, diversity targets, diverse talent pipeline and demographic data — vs. the bottom quartile, based on their Impax Gender Score for the period of June 30, 2014, to Feb. 28, 2023. Source: FactSet

## Cappabianca

CONTINUED FROM OPPOSITE PAGE

**Diverse leadership counts — especially in management:** Second, we disaggregated the data to gain a deeper understanding of how each gender factor has contributed to financial performance. Exhibit 3 reveals the impact of the four leadership factors with the biggest difference between leaders and laggards: women in management, women on the board, a woman chief financial officer and woman CEO.

The impact of each of these four leadership factors has trended upward since 2016, but the strongest relationship with shareholder returns is clearly women in management. This aligns with the academic and financial literature: Diverse executive leadership is likely to be positively correlated with financial performance. While leaders and laggards on board gender diversity did not deliver returns that were as divergent, our analysis did reveal that being in the bottom quartile for this factor is predictive of worse financial results.

**Workplace equity factors emerge as source of alpha:** Third, we analyzed excess shareholder returns associated with several key workplace equity factors. Exhibit 4

summarizes the outperformance associated with four of these factors, for which data are available going back to 2020.

Most of the workplace equity factors are positive for this three-year period, particularly talent pipeline and pay equity initiatives. Companies with three or more of these indicators tend to outperform those with two or fewer. While this is unsurprising to us, it underscores how specific practices provide a window into culture, and strong cultures tend to contribute to better performance.

**Drawing lessons from our research:** We believe investing in gender leaders and avoiding gender laggards has consistently added value over time. Our research reinforces that inclusive cultures and purpose-driven business practices can be contributors to outperformance. Companies that incorporate these practices tend to attract and retain talented employees from diverse backgrounds who can then drive innovation, productivity, customer loyalty and resilience. In our view, improving corporate cultures will be a crucial element in the transition to a more sustainable economy.

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## DC ROUNDUP

# Yale University prevails in rare ERISA lawsuit that goes to jury

In a rare jury trial for an ERISA lawsuit, Yale University has defeated claims by participants in a 403(b) plan that they suffered financial harm due to the plan's mismanagement.

The initial lawsuit was filed in August 2016. The federal jury in Hartford, Conn., unanimously voted late June 28 on several allegations against the university and its fiduciaries, including one in which jurors said defendants "breached their duty of prudence by allowing unreasonable record-keeping and administrative fees" to be charged to participants, according to a court document describing the jury's deliberations.

However, the jurors voted that the plaintiffs didn't prove any damages resulting from the record keeping, the document said. They also agreed with the defendants' assertion that there were no damages.

The jurors also voted that the defendants proved that "a fiduciary following a prudent process could have made the same decisions as to record-keeping and administrative fees as the defendants."

Among the other claims by plaintiffs, the jurors rejected allegations that Yale failed to "appropriately monitor" the plan's investment lineup, failed to pick appropriate share classes for certain investments and "imprudently agreed" to a requirement by TIAA-CREF that a plan offering the TIAA Traditional Annuity must also offer the CREF Stock Account. (TIAA-CREF wasn't a defendant.)

The Yale University Retirement Account Plan, New Haven, Conn., had \$7.1 billion in assets as of Dec. 31, 2021.

## U.K. DC plans to put 5% of default funds in private firms

Nine U.K. defined contribution plans have pledged to invest 5% of their default funds into private U.K. companies by 2030.

The investors on July 10 signed the Mansion House Compact, which aims to give DC plan participants access to the returns of high-growth private companies as well as encouraging entrepreneurs to set up innovative high-growth companies.

Among signatories was the £30 billion (\$38 billion) multiemployer DC plan National Employment Savings Trust, London.

"For many years now, illiquid assets have been integral to diversified DC pension schemes around the world," said Mark Fawcett, CEO of NEST Invest, a subsidiary of NEST, in an email. "It's been a key driver behind NEST setting up our own private market mandates to ensure our members aren't missing out. NEST will continue to increase our investment in unlisted equities, helping our 12 million members benefit from the strong returns these types of deals can typically offer."

## Verizon settles 401(k) lawsuit for \$30 million

Verizon Communications Inc. will pay \$30 million to settle a lawsuit by a former participant in a

company 401(k) plan who alleged ERISA violations in its investment practices, according to a settlement document filed July 7 in a U.S. District Court in New York.

The class-action settlement will cover 160,000 participants and beneficiaries.

The lawsuit focused on allegations that a poor-performing hedge fund, the global opportunity fund, should have been removed from the plan's lineup.

The plaintiff accused plan executives of failing to "adequately monitor" the fund's performance and "failed to take any corrective action" despite the fund's results, according to the settlement agreement.

The original lawsuit was filed in February 2016. A trial had been scheduled for July 10.

"There is no evidence that defendants were engaged in a process to monitor the global opportunity fund, or had a reason to maintain the global opportunity fund as an investment option in the Savings Plan in light of its poor performance," the judge wrote in April 2023.

Verizon Savings Plan for Management Employees, Basking Ridge, N.J., had \$25.2 billion in assets as of Dec. 31.

## Boomers down on younger generations' retirements

Baby boomers are not optimistic about the retirement prospects of future generations, according to a survey released July 6 by non-profit Transamerica Center for Retirement Studies.

More than half, 55%, believe that future retirees will be worse off than those currently in retirement, the survey found.

The pessimism eased among younger workers. Only 28% of Generation Z and 33% of millennials saw future retirees as being worse off. A little more than half of Generation X, or 51%, held that view.

Baby boomers perhaps have reason to be the gloomiest of the four generations of workers as they plan to work longer than any other group.

About half of baby-boomer workers, 49%, expect to work — or already are working — past age 70 and do not expect to retire, according to the survey.

The majority, 83%, cited financial reasons for working — or planning to work — past age 65. Just under 20% said they were anxious about volatility in financial markets and investment performance.

Baby boomers reported that their greatest retirement fears revolve around outliving their savings and investments (49%), declining health that requires long-term care (43%) and the sustainability of Social Security (40%).

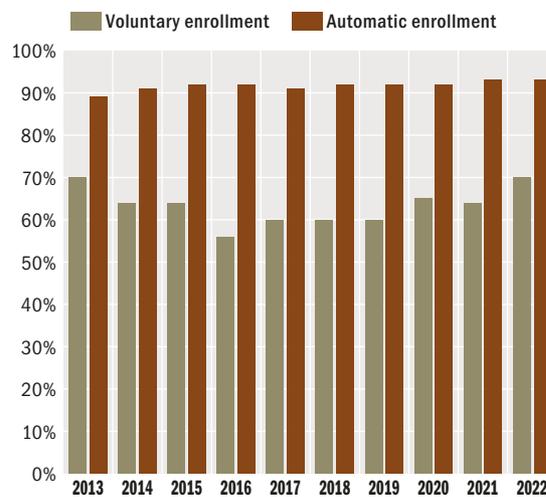
"Among those still in the workforce, baby boomers are especially vulnerable to employment setbacks, volatility in the financial markets, and increasing inflation — all of which could disrupt their retirement plans and with little or no ability to recover," said Catherine Collinson, CEO and president of the Transamerica Institute and

## Auto enrollment a boon across all income levels

Plan sponsors offering defined contribution plan participants automatic enrollment have consistently higher participation rates, according to Vanguard Group's recent "How America Saves" report. Participation in plans featuring automatic enrollment was 93% in 2022, in line with previous years, while plans with voluntary enrollment had 70% participation.

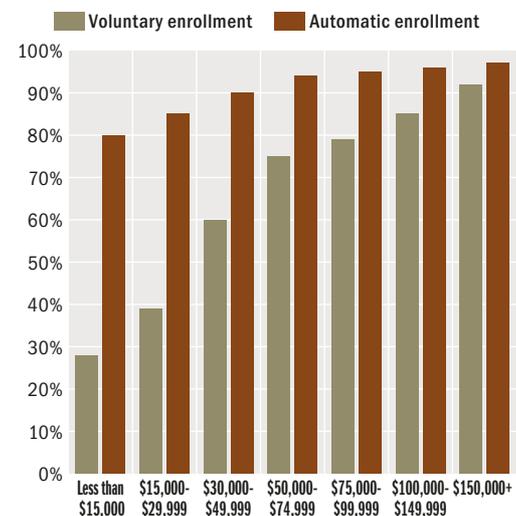
The difference between participation levels is starker at lower income levels. Last year, for those making less than \$15,000 per year, only 28% participated in a voluntary enrollment DC plan, but that rose to 80% for automatic enrollment plans. For those making more than \$150,000, participation rates were 92% for voluntary enrollment plans and 97% for automatic-enrollment plans.

Participation rates by enrollment method



Source: Vanguard Group

Participation rates by annual income



the Transamerica Center for Retirement Studies, in a news release.

Baby-boomer workers have an estimated median \$289,000 saved across all household retirement accounts and a median of \$25,000 in emergency savings, according to the survey. Only 34% said they have a backup plan for income if forced into retirement sooner than expected.

## Goldman drops high-yield fund from 401(k) plan

Goldman Sachs Group Inc., New York, removed the Guggenheim High Yield Fund from the investment options lineup of its 401(k) plan.

The financial services company removed the high-yield fixed-income fund managed by Guggenheim Investments during 2022, a Goldman Sachs spokesman confirmed.

As of Dec. 31, 2021, the Guggenheim fund had \$123 million in assets in the plan, according to last year's 11-K filing.

The spokesman said the change came following a routine review of the plan.

As of March 31, the Guggenheim High Yield Fund's total assets across all share classes was \$183 million, according to its website.

As of Dec. 31, the Goldman Sachs 401(k) Plan had \$9.6 billion in assets, according to its new 11-K filing.

## Judge rejects class-action certification for 403(b) suit

A federal judge in New York has rejected a request by a participant in a Washington University in St. Louis 403(b) plan to have her lawsuit against the Teachers Insurance and Annuity Association broadened

to a class-action suit to cover some 8,000 other plans.

Washington University in St. Louis isn't a defendant in Melissa Haley vs. Teachers Insurance and Annuity Association. She criticized the TIAA practice of offering collateralized and non-collateralized loans to retirement plan participants, alleging this was an ERISA violation.

The ruling June 27 by U.S. District Judge J. Paul Oetken reversed his November 2020 decision that allowed the broad class-action complaint, which would have covered nearly 1 million loan transactions, according to court records.

TIAA appealed to the 2nd U.S. Circuit Court of Appeals in New York, which in December 2022 overturned the judge's original class-certification ruling and sent the case back to his court.

"Plaintiff again sought a class definition identical to that which the Second Circuit vacated, and plaintiff relies on a virtually indistinguishable set of arguments as before, even though the Second Circuit has rejected them," Mr. Oetken wrote June 27.

The class-action ruling doesn't affect the substance of Ms. Haley's lawsuit, which she filed in 2017.

## Ascensus appoints Nick Good as president

Nick Good was named president of Ascensus, effective Sept. 5, the record keeper announced July 13.

He will report to David Musto, who will continue to serve as chairman and CEO of Ascensus.

As president, Mr. Good will work directly with the company's line of business presidents and the digital, marketing and analytics center of excellence.

Mr. Musto, meanwhile, will devote more of this time to the overall

leadership of Ascensus, the news release said.

Mr. Good will join Ascensus from Pandal Group, a global asset manager publicly listed in Australia, where he served as CEO.

Prior to Pandal, Mr. Good was executive vice president and chief growth and strategy officer for State Street Corp. and co-head of State Street Global Advisor's global ETFs business.

## Astellas, Aon settle 401(k) lawsuit for \$9.5 million

Astellas US LLC and Aon will pay \$9.5 million to settle an ERISA lawsuit filed by participants in an Astellas 401(k) plan, according to a settlement document filed June 23.

In April 2021, U.S. District Court Judge Ronald A. Guzman dismissed some allegations but allowed most to proceed to trial, including plaintiffs' assertions that the plan should have offered lower-cost shares of mutual funds and that plan executives failed to monitor the process by which Aon selected investments.

Defendants did not admit any wrongdoing or liability in the settlement.

The defendants also agreed to several non-monetary terms. Within a year of the settlement receiving court approval, Astellas will conduct an RFP for investment advisory services. Aon may apply.

Within 90 days of the settlement's approval, Astellas will, for three years, instruct any record keeper to avoid using any plan data to cross-sell non-plan investments to participants unless specifically requested by a participant, the document said.

Astellas U.S. Retirement and Savings Plan, Northbrook, Ill., had \$1.7 billion in assets as of Dec. 31, 2021.

## EXCHANGE-TRADED FUNDS

# Spot bitcoin ETP approvals veering off the golden road

By **ARI I. WEINBERG**

Bitcoin is often referred to as digital gold. But, on the winding path toward approval for a physically backed exchange-traded product in the United States, the similarities between bitcoin and gold fall off quickly.

It has been 20 years since an exchange-traded product holding gold first listed in Australia. Within 19 months, similar offerings followed in the U.K. and the U.S. There are now nearly 100 exchange-listed products backed by physical gold throughout the world, including the \$56.8 billion SPDR Gold Shares, known by its ticker GLD.

Perhaps to the bewilderment of bitcoin proponents, many of whom have been toiling away for approval of a spot U.S. offering for nearly a decade, GLD went from its first filing with the U.S. Securities and Exchange to listing on the New York Stock Exchange in just 18 months. Structured as a grantor trust, GLD hit \$1 billion in assets in roughly a week and unlocked demand for gold across the investment spectrum.

The World Gold Council, a consortium of 33 gold-mining companies operating across 45 countries, helped bring many global gold products to life with its focus on standards and provenance, and the

industry group is still closely intertwined with GLD, the world's largest gold fund. Joseph Cavatoni, North American market strategist for WGC, also serves as principal executive officer for World Gold Trust Services LLC, the sponsor of GLD and GLDM, the 5-year-old SPDR Gold MiniShares Trust.

What drives the viability of physical gold products, and continues to hinder SEC acceptance of spot bitcoin offerings, is the total market context in which gold operates. Spot gold is supported by a robust futures market. Central banks continue to hold gold reserves. Medical, industrial and jewelry markets create natural demand beyond investment. And, of course, gold bugs are ever-present.

Regulators, however, are not necessarily swayed by the details of the contextual market. They are concerned with what happens on the securities exchanges whose rules they oversee and listings they approve. For exchange-traded products, that means transparent pricing, clear custody, and trading and settlement reliability.

For investors and ETP issuers, their focus is on the liquidity of the underlying asset, the premium or discount of the ETP share price to net asset value, and the trading spreads and volumes that

compel market makers and enhance liquidity.

ETPs include exchange-traded notes (debt securities that track the returns of a particular index or asset), exchange-traded funds (which hold equity and debt securities as well as loans, futures, options and cash), and exchange-traded commodities, which hold physical commodities.

"Tight spreads are easily achieved when a product is built the right way," Mr. Cavatoni said. "They give market makers confidence to transact."

Confidence in gold is also backed by millennia of luster, utilization and speculation. Bitcoin, on the other hand, just had its bar mitzvah last year.

It's not that bitcoin and other cryptocurrencies aren't available to anyone who wants to buy. Crypto can be held directly in a digital wallet or bought on an exchange such as Coinbase and Binance. (Last fall's bankruptcy of FTX cast a lot of doubt on such exchanges amid the "crypto winter" of declining asset values and failed companies.)

Though still 50% off highs hit in late 2021, bitcoin has doubled since the fall to about \$30,000. The combination of rising rates, inflation and bank failures gave product issuers hope that the SEC would

eventually bless a bitcoin offering. A mid-June filing by BlackRock Inc. for a spot bitcoin ETP silenced even more critics as chairman and CEO Larry Fink, once a cryptobear, was out talking up crypto.

Still, exchange-traded products tracking or holding bitcoin have been available globally since 2015, starting with exchange-traded notes in Sweden. In 2021, a product holding "physical" bitcoin listed in Canada and a futures-based product arrived in the U.S. The Grayscale Bitcoin Trust, GBTC, launched in the U.S. as a private placement in 2013, has traded over-the-counter for eight years and holds \$18.9 billion in bitcoin.

Grayscale is currently suing the SEC after the regulator denied its application to convert GBTC to an ETP. Such a conversion would effectively close its significant trading discount to NAV, which stood at 27.5% as of July 7. A final decision from the DC Circuit Court of Appeals is expected this fall.

Not including GBTC, research firm ETFGI tracks 166 digital asset ETPs around the world. These products collectively held \$9 billion through April. Gold ETPs, on the other hand, held \$211 billion in gold through June 30, according to the World Gold Council. Just under half of those assets are held by

U.S.-listed products. This statistic reinforces why a U.S. ETP is seen as critically important to the bitcoin market.

"Without question, the greatest challenge (to launching GLD) was satisfying the rigorous examination from the Securities and Exchange Commission," said George Milling-Stanley, chief gold strategist for State Street Global Advisors.

"Prior to the GLD launch, the SEC had limited knowledge about the gold market and its operations and system of regulation, and that entailed a lengthy educational process, involving experts from the fields of trading in spot gold and futures, the legal structure of the gold market, attorneys, analysts and more," Mr. Milling-Stanley said.

From his experience with the launch of GLD, Mr. Milling-Stanley has some caution for those looking to bring new concepts and asset classes to ETPs.

"Make sure the market really has a burning desire for whatever product is being contemplated. For GLD, the World Gold Council conducted extensive market research, involving thousands of interviews with people who did not invest in gold, in order to identify the perceived barriers," he said. "This paid dividends."

Even though gold, like bitcoin, does not. ■

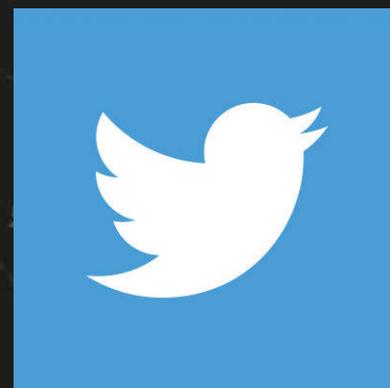
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# Pensions & Investments

# INVESTMENT OUTSOURCING

## Volatility, complex markets buoy OCIO

Institutional need for professional expertise likely to remain high in turbulent environment

By PALASH GHOSH

Demand for the services of outsourced chief investment officers is likely to remain robust in the coming years as institutions face a persistently volatile market environment requiring professional expertise, while the growing appeal of high-returning alternative assets will also buoy the need for OCIOs.

Set back by difficult market conditions in 2022, OCIO assets managed for institutions worldwide with discretion declined to \$2.55 trillion as of March 31, down 4.5% from \$2.68 trillion in 2022, according to *Pensions & Investments'* latest survey of OCIO managers.

However, Peter Corippo, Seattle-based managing director, fiduciary solutions-retirement at Russell Investments, said the ongoing volatility in the public markets will likely benefit OCIOs as more asset owners would rather transfer management of their assets to outside entities with high expertise. "Volatile markets like what we have been experiencing really test the mettle of investors and I think many of them would prefer to let an outside firm handle their investments," he said.

Russell Investments had \$152.5

billion in outsourced assets under management as of March 31, down 13.3% from the prior year's survey.

The robust demand for OCIO services from institutional clients is an ongoing scenario that was heightened by the "incredible volatility of markets" in 2022, agreed Sona Menon, Boston-based head of the North American pension practice and an OCIO at Cambridge Associates LLC.

"This has been a long-term trend and I think it will continue unabated," she said. "As markets remain volatile and institutional investment portfolios have become more complex, the need for OCIO services keeps increasing. Institutional clients often do not have in-house expertise in managing their assets, and OCIOs can provide day-to-day portfolio management and oversight, proactively manage risk and also quickly and nimbly rebalance portfolios when necessary, especially during market dislocations."

Cambridge had \$48.7 billion in outsourced AUM with discretion as of March 31, down 5.8% from a year earlier.

### Search activity up

Continued volatility tends to lead investment committees to take a



**'As markets remain volatile and institutional investment portfolios have become more complex, the need for OCIO services keeps increasing.'**

CAMBRIDGE ASSOCIATES' SONA MENON

closer look at their organization's investment portfolio, noted Kane Brennan, Radnor, Pa.-based CEO of TIFF Investment Management. "Historically, these types of reviews have led asset owners to seek out OCIOs through formal searches," he said via email.

"OCIOs have been busy responding to RFIs and RFPs," Mr. Brennan said, noting that search activity was up 22% between 2021 and 2022. "Some asset owners are seeing a drop-off in performance as a reason to initiate a search, while others are doing so due to service concerns."

TIFF Advisory Services, a subsidiary of TIFF Investment Management, had \$8.3 billion in outsourced AUM as of March 31, up 6.4% from a year prior.

Thomas J. Kennelly, Boston-based managing director and senior investment strategist in the investment solutions group of State Street Global Advisors, agreed that the "drastic shift" in central bank policy in the midst of inflationary shocks experienced in 2022 and the heightened market volatility have been tailwinds for search activity and prompted asset owners to re-

search the benefits that an OCIO can bring to plan sponsors and non-profit investment committees.

SSGA reported \$152.9 billion in outsourced AUM as of March 31, making it the sixth-largest OCIO in *P&I's* database, down 15.8% from 2022.

Research from Cerulli Associates published earlier this year supports Mr. Kennelly's conclusion that asset owners are watching the space closely. According to Cerulli, roughly 25% of institutional asset owners said they are considering the services of an outsourced chief investment officer in some capacity over the next 24 months. Specifically, 14% of asset owners said they are considering outsourcing their CIO responsibilities and 11% said they are considering expanding the role of their current OCIO from managing a partial portfolio, or sleeve, to a total portfolio or the addition of other in-house-managed asset pools.

Some of the institutions currently seeking out the services of an OCIO manager are:

■ Illinois Firefighters' Pension Investment Fund, Lombard, which issued an RFP in February for an OCIO firm to assist on a new private markets portfolio. The fund has \$7.5 billion in total defined benefit assets.

■ Braintree (Mass.) Contributory Retirement System, which issued an RFP in January for an OCIO manager due to the upcom-

### Investment outsourcing at a glance

Managed for institutional investors, assets in millions, as of March 31.

	2023 data	One-year change	Five-year change
<b>Total worldwide outsourced assets*</b>	<b>\$2,954,993</b>	-3.9%	41.5%
<b>Worldwide outsourced AUM**</b>	<b>\$2,554,943</b>	-4.5%	46.9%
Managed with full discretion	\$1,773,378	-6.2%	40.8%
Internally managed	\$436,791	-10.8%	3.6%
Managed under ESG principles	\$226,980	-41.5%	—
Managed by WMDV-owned managers	\$45,663	33.1%	—
<b>Total U.S.-client outsourced assets*</b>	<b>\$2,173,743</b>	-1.7%	52.4%
<b>U.S.-client outsourced AUM**</b>	<b>\$1,834,660</b>	-2.6%	58.6%
Managed with full discretion	\$1,304,338	-2.3%	60.4%
Internally managed	\$238,017	-3.2%	5.5%
Managed under ESG principles	\$120,906	-38.8%	—
Managed by WMDV-owned managers	\$45,306	33.5%	—
<b>Total number of worldwide outsourcing clients</b>	<b>35,097</b>	<b>18.6%</b>	<b>97.1%</b>
U.S. outsourcing clients	31,765	20.7%	107.9%
<b>Number of U.S. outsourcing clients by type:</b>			
Endowment	2,620	0.6%	164.1%
Foundation	2,761	-51.8%	133.2%
Defined benefit	2,854	17.3%	81.9%
Defined contribution	22,338	58.7%	1042.6%
<b>U.S.-client outsourced AUM by type:**</b>			
Endowment	\$135,897	-2.4%	377.0%
Foundation	\$150,281	-3.9%	210.7%
Defined benefit	\$631,939	4.8%	41.9%
Defined contribution	\$267,099	4.3%	134.8%

\*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

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

Rank	Manager	Assets	Rank	Manager	Assets
1	Mercer	\$337,733	24	Fidelity Institutional	\$18,607
2	Goldman Sachs Group	\$246,846	25	PFM Asset Mgmt.	\$17,790
3	BlackRock	\$197,046	26	Fiducient Advisors*	\$16,900
4	Aon	\$177,989	27	Sterling Capital	\$16,075
5	WTW Investment Services*	\$165,000	28	Agility	\$14,234
6	State Street Global	\$152,906	29	Highland Associates	\$13,772
7	Russell Investments	\$152,450	30	Marquette Associates	\$13,142
8	Northern Trust	\$92,331	31	Commonfund	\$12,200
9	J.P. Morgan Asset & Wealth	\$87,597	32	Hirtle, Callaghan	\$12,100
10	SEI Investments	\$87,148	33	CornerStone Partners	\$11,941
11	CAPTRUST Financial	\$85,845	34	Pentegra Investors	\$10,597
12	Alan Biller and Associates	\$79,247	35	Global Endowment Mgmt.	\$10,144
13	Morgan Stanley	\$71,206	36	Fund Evaluation Group*	\$9,990
14	Bank of America	\$62,710	37	TIFF Advisory Services	\$8,292
15	NEPC	\$61,456	38	Commerce Trust	\$7,710
16	Vanguard Group	\$59,517	39	Angeles Investment Advisors	\$6,275
17	Cambridge Associates	\$48,681	40	Gallagher Fiduciary*	\$5,513
18	Aegon Asset Mgmt.	\$35,061	41	Verus	\$4,131
19	Strategic Investment Group	\$26,240	42	Prime Buchholz	\$3,635
20	Meketa Investment Group	\$24,393	43	Spider Mgmt.	\$2,674
21	Principal	\$24,173	44	Verger Capital	\$2,523
22	Callan	\$23,269	45	Canterbury Consulting	\$2,079
23	Wilshire Advisors	\$21,541	46	Conrad Siegel	\$1,923

ing contract expiration of incumbent SEI Investments. The pension fund has \$252 million in assets.

■ Greenwich (Conn.) Town Retirement System, which issued an RFP in January for an OCIO manager due to the upcoming contract expiration of incumbent Neuberger Berman. The pension fund has \$618 million in assets.

Institutions are challenged by the same hiring and turnover trends affecting other industries, leading to increased needs for investment and operational support to manage investment portfolios, added Timothy Yates Jr., New York-based president and CEO of Commonfund. "They are looking to OCIOs to provide these functions and support," he said via email.

"While there are few, if any, truly new asset classes in the world, there is increased complexity within asset classes and a huge number of strategies and managers globally to track and evaluate, which also requires significant resources — this is another place where investors are looking to OCIOs for help," Mr. Yates said.

Commonfund reported \$12.2 billion in outsourced AUM as of March 31, down approximately 17% from a year prior.

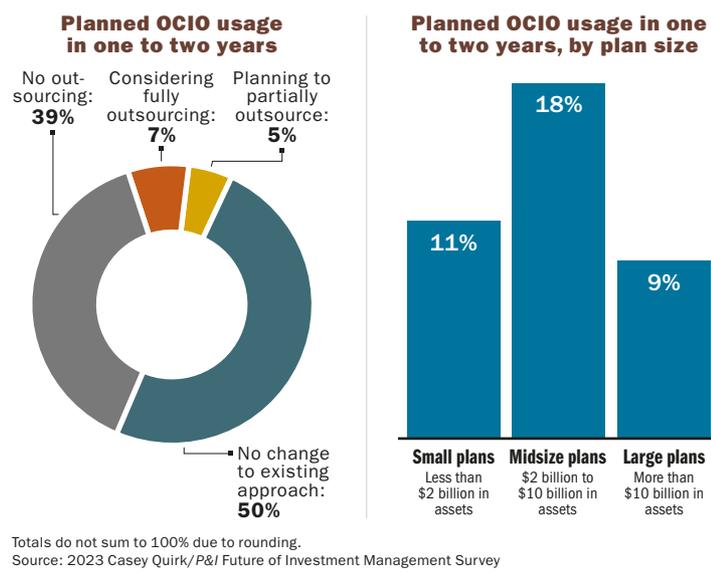
### Demand for alts

Asset owners are drawn to OCIO providers for support in diversifying their portfolios outside of the public markets, TIFF's Mr. Brennan said.

"The demand for alternatives, particularly in private markets, remains significant," he noted. "Asset owners don't believe they have the appropriate level of expertise to

## Asset owners continue to embrace investment outsourcing

According to the 2023 Casey Quirk/P&I Future of Investment Management Survey, asset owners — particularly midsize plans — are planning further outsourcing of investment management.



identify these managers or the network to gain access — as such, they turn to OCIOs for support."

The use of complex asset classes and investment strategies is a strong point in favor of the OCIO approach, concurred Ryan Lennie, Pittsburgh-based managing director at Wilshire Advisors LLC.

"It is difficult for many investment committee members to gain the familiarity required to evaluate and manage these strategies through a typical quarterly meeting cycle, so an OCIO team that special-

izes in these strategies will likely be in a better place to make decisions," he said via email.

Wilshire had \$21.5 billion in outsourced AUM as of March 31, down 6.9% from a year earlier.

Demand for alternative assets — including real assets, infrastructure, hedge funds, real estate and private equity — will remain high for a wide spectrum of asset owners due to their risk management benefits and total-asset-pool return potential, predicted John J. Delaney, Phil-

SEE DEMAND ON PAGE 16

# Demand growing, but searching and hiring not necessarily easier

## Concern over logistics to transition custody, management an issue

By PALASH GHOSH and BAILEY McCANN

The growing popularity of OCIOs is making it easier for asset owners to access the right providers, but sources are split over whether the search and hiring process is getting easier for institutions.

Many asset owners are concerned about the logistics of moving from third-party investment managers, custodians and benefit providers to an OCIO, but that part of the hiring process is getting easier as the outsourced investment industry matures, said Thomas J. Kennelly, Boston-based managing director and global head of OCIO investment strategy at the investment solutions group of State Street Global Advisors.

"Having an effective transition plan to an OCIO model that maintains market exposures, ensures links to custody and participant record-keeping, and provides quality committee and board reporting are a few of the challenges that experi-

enced and deeply resourced OCIO providers can help with, delivering a seamless transition," Mr. Kennelly said in an email.

Ryan Lennie, Pittsburgh-based managing director at Wilshire Advisors, said that with the help of search consultants, asset owners are getting better at making their hiring decisions.

"The OCIO market is extremely competitive, which gives asset owners a lot of flexibility to find the approach that will be the best fit for their organization," he said in an email. "As the hiring process has matured, asset owners are demonstrating a better understanding of what will suit their needs and finding an effective partner to fill that role."

Wilshire had \$21.5 billion in outsourced AUM as of March 31, down 6.9% from a year ago.

### Temple University

About eight years ago, Temple University evaluated various investment models, ultimately zeroing in on an OCIO model for its endowment, pension and post-retirement funds, said Ken Kaiser, the university's outgoing senior vice president and chief operating officer.

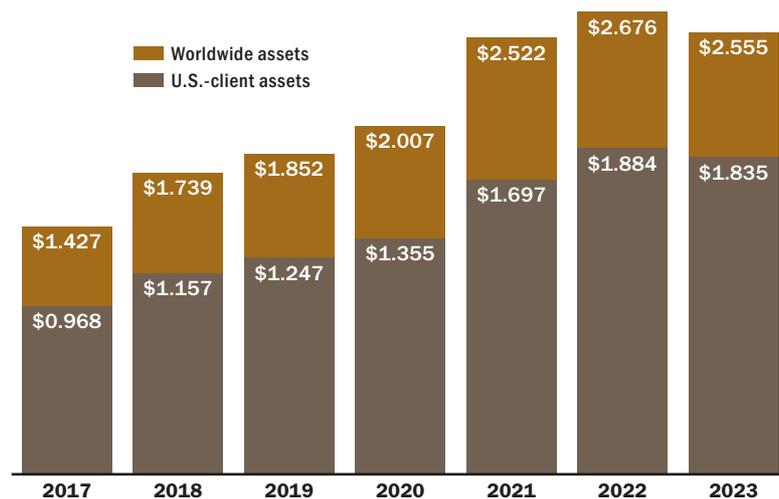
SEE HIRING ON PAGE 19

Rank	Manager	Assets
47	Disciplina Capital	\$1,900
48	Agilis	\$1,887
49	RBC Global Asset Mgmt.	\$1,623
50	Guardian Partners	\$1,595
51	Cliffwater	\$1,455
52	Sellwood Consulting	\$1,229
53	LCG Associates*	\$1,070
54	Bivium Capital	\$679
55	Gifford Fong Associates	\$381
56	Equitas Capital Advisors	\$280
57	CIBC Asset Mgmt.	\$212

\*As of Dec. 31.

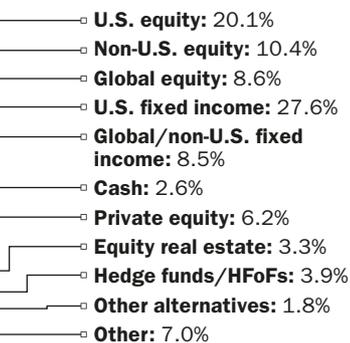
## Growth of institutional outsourcing

Assets are in trillions as of March 31.



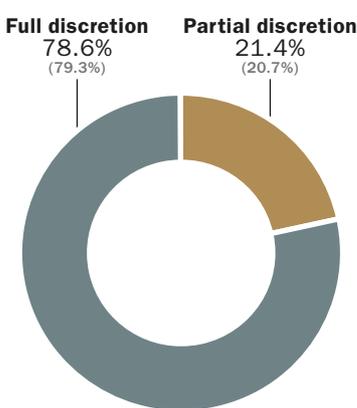
## Outsourcing manager asset mix

Weighted average of the 50 largest outsource managers' worldwide institutional outsourced assets as of March 31.



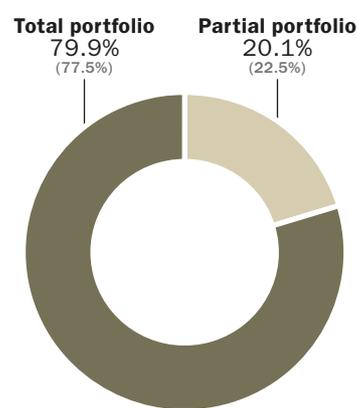
## Outsourced assets by level of discretion

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



## The largest managers of total investment outsourcing assets

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

Rank	Manager	Total assets	Number of clients	Full/partial discretionary assets
1	Cambridge Associates	\$367,424		\$48,681
2	Mercer	\$337,733	1,957	\$337,733
3	Goldman Sachs Group	\$246,846		\$246,846
4	BlackRock	\$197,046	121	\$197,046
5	Aon	\$177,989	538	\$177,989
6	WTW Investment Services*	\$165,000	466	\$165,000
7	State Street Global	\$152,906	273	\$152,906
8	Russell Investments	\$152,450	364	\$152,450
9	Northern Trust	\$139,538	533	\$92,331
10	J.P. Morgan Asset & Wealth	\$117,423	2,437	\$87,597
11	SEI Investments	\$87,148	473	\$87,148
12	CAPTRUST Financial	\$85,845	1,576	\$85,845
13	Alan Biller and Associates	\$79,247	54	\$79,247

Rank	Manager	Total assets	Number of clients	Full/partial discretionary assets
14	Morgan Stanley	\$71,206	403	\$71,206
15	Bank of America	\$62,710	1,244	\$62,710
16	NEPC	\$61,456	84	\$61,456
17	Vanguard Group	\$59,517	1,188	\$59,517
18	Aegon Asset Mgmt.	\$35,061	156	\$35,061
19	Strategic Investment Group	\$26,240	30	\$26,240
20	Meketa Investment Group	\$24,393	66	\$24,393
21	Principal	\$24,173	619	\$24,173
22	Callan	\$23,269	29	\$23,269
23	Wilshire Advisors	\$21,541	18,669	\$21,541
24	Fidelity Institutional	\$18,607	544	\$18,607
25	PFM Asset Mgmt.	\$17,790	261	\$17,790

\*As of Dec. 31.

## The largest managers of full 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	\$266,809	79.0%	21.0%
2	BlackRock	\$173,400	88.0%	12.0%
3	Aon	\$133,492	75.0%	25.0%
4	WTW Investment Services*	\$99,000	60.0%	40.0%
5	Northern Trust	\$92,331	100.0%	
6	Russell Investments	\$88,421	58.0%	42.0%
7	J.P. Morgan Asset & Wealth	\$87,597	100.0%	
8	CAPTRUST Financial	\$85,845	100.0%	
9	Morgan Stanley	\$71,206	100.0%	
10	State Street Global	\$64,221	42.0%	58.0%
11	Bank of America	\$60,829	97.0%	3.0%
12	Alan Biller and Associates	\$55,473	70.0%	30.0%
13	Vanguard Group	\$52,970	89.0%	11.0%

Rank	Manager	Assets managed with full discretion	% of assets with full discretion	% of assets with partial discretion
14	NEPC	\$52,545	85.5%	14.5%
15	SEI Investments	\$36,602	42.0%	58.0%
16	Aegon Asset Mgmt.	\$27,698	79.0%	21.0%
17	Strategic Investment Group	\$26,240	100.0%	
18	Meketa Investment Group	\$24,393	100.0%	
19	Principal	\$24,173	100.0%	
20	Callan	\$23,269	100.0%	
21	Wilshire Advisors	\$21,541	100.0%	
22	PFM Asset Mgmt.	\$17,790	100.0%	
23	Sterling Capital	\$16,011	99.6%	0.4%
24	Agility	\$14,234	100.0%	
25	Highland Associates	\$13,772	100.0%	

\*As of Dec. 31.

## The largest managers by asset category

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

### Internally managed assets

Rank	Manager	Assets
1	BlackRock	\$100,493
2	Russell Investments	\$85,292
3	J.P. Morgan Asset & Wealth	\$59,396
4	Vanguard Group	\$50,985
5	State Street Global	\$42,563
6	Aegon Asset Mgmt.	\$32,598
7	Fidelity Institutional	\$18,607
8	Northern Trust	\$13,170
9	Commerce Trust	\$7,710
10	Bank of America	\$6,773

\*Excludes allocations to WMDV-owned alternatives managers.

### Invested under ESG principles

Rank	Manager	Assets
1	J.P. Morgan Asset & Wealth	\$53,673
2	Russell Investments	\$37,126
3	Aegon Asset Mgmt.	\$32,606
4	NEPC	\$21,196
5	State Street Global	\$12,572
6	Commonfund	\$12,200
7	Wilshire Advisors	\$11,013
8	Global Endowment Mgmt.	\$9,455
9	Marquette Associates	\$9,140
10	Agility	\$6,813

### Invested with WMDV firms

Rank	Manager	Assets
1	BlackRock*	\$13,918
2	Northern Trust	\$6,762
3	NEPC	\$3,732
4	Agility	\$3,030
5	Strategic Investment Group	\$2,542
6	State Street Global	\$2,341
7	Commonfund	\$2,100
8	Global Endowment Mgmt.	\$2,036
9	Marquette Associates	\$1,759
10	PFM Asset Mgmt.	\$1,357

# Demand

CONTINUED FROM PAGE 15

Philadelphia-based portfolio manager and senior investment consultant at Willis Towers Watson PLC.

WTW reported outsourced AUM of \$165 billion as of Dec. 31, making it the fifth-largest OCIO in *P&I's* database, down 8.9% from March 31, 2022.

### Becoming upmarket

Russell's Mr. Corippo asserted that the OCIO business is becoming "more upmarket."

"Mandates are getting bigger and bigger," he said. "Asset owners, especially pension plans, are allocating more dollars to outside management of their assets."

Jennifer Kruse, New York-based U.S. OCIO leader at Mercer, agreed mandates are growing. "We are seeing OCIO mandates for larger asset pools either because of the complexity of these programs or the need for expertise that teams don't have in-house," she observed. "This has been driven largely by retirements among in-house teams, departures, or M&A activity that adds to plan oversight complexity."

Mercer is the largest OCIO in with discretion in *P&I's* database with \$337.7 billion in outsourced AUM as of March 31, down 8.8% from a year prior.

Midsized plans, in particular, are facing a "war for talent" and considering OCIO services as a result, said Amanda Nelson, New York-based principal at Casey Quirk, Deloitte's asset management strategy consulting business.

"The inability to get the talent they want internally is forcing them to look externally for providers that can fill the gap," Ms. Nelson said.

Indeed, a recent Casey Quirk survey, conducted earlier this year in partnership with *P&I*, found that looking across the various plan sizes — small, midsize and large — midsize plans, defined as having between \$2 billion and \$10 billion in assets, reported the greatest planned usage of OCIO in the next one to two years at 18%, vs. 11% for small plans and 9% for large plans.

Roughly 80 asset owners and consulting firms were surveyed between February and April.

Midsized plans tend to have the investment complexity of large plans without the resources, Casey Quirk's survey report said. ■

Bailey McCann contributed to this story.

## The largest managers by client type

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

### Endowment assets

Rank	Manager	Assets
1	Bank of America	\$26,693
2	Vanguard Group	\$10,812
3	Agility	\$8,237
4	Commonfund	\$7,905
5	Hirtle, Callaghan	\$7,800
6	Mercer	\$7,395
7	Strategic Investment Group	\$7,001
8	TIFF Advisory Services	\$5,993
9	Morgan Stanley	\$5,952
10	J.P. Morgan Asset & Wealth	\$5,615

\*As of Dec. 31.

### Foundation assets

Rank	Manager	Assets
1	Bank of America	\$26,625
2	Vanguard Group	\$23,660
3	J.P. Morgan Asset & Wealth	\$17,417
4	Northern Trust	\$13,340
5	Morgan Stanley	\$9,793
6	Global Endowment Mgmt.	\$5,807
7	Fidelity Institutional	\$5,146
8	Agility	\$4,701
9	BlackRock	\$4,045
10	Hirtle, Callaghan	\$3,600

### Defined benefit assets

Rank	Manager	Assets
1	Aon	\$73,141
2	Alan Biller and Associates	\$70,489
3	BlackRock	\$65,011
4	State Street Global	\$62,461
5	WTW Investment Services*	\$53,036
6	Mercer	\$49,079
7	Morgan Stanley	\$43,256
8	Russell Investments	\$24,425
9	Northern Trust	\$22,402
10	J.P. Morgan Asset & Wealth	\$19,185

### Defined contribution assets

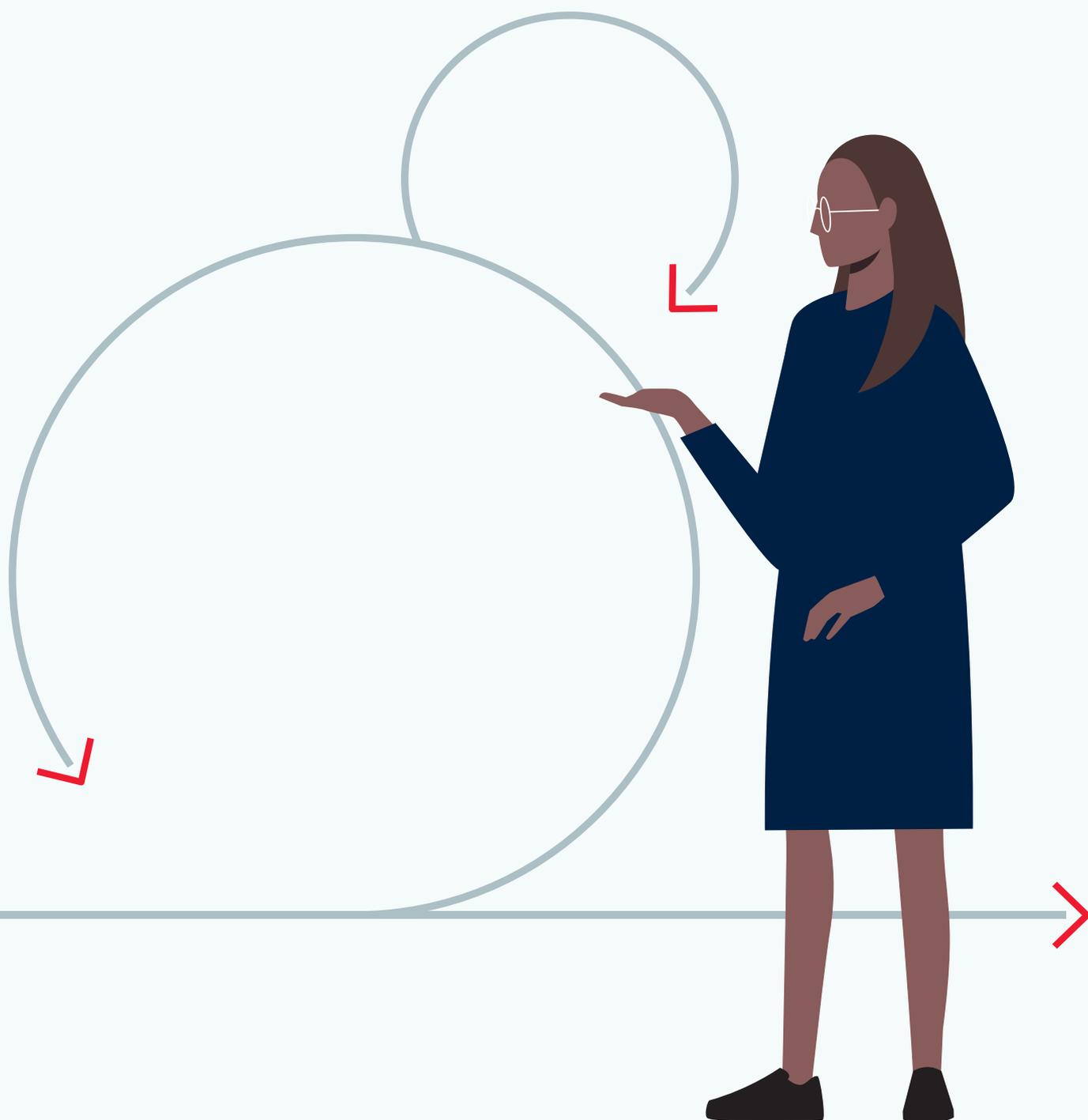
Rank	Manager	Assets
1	Mercer	\$60,573
2	Aon	\$42,334
3	State Street Global	\$26,437
4	NEPC	\$24,514
5	Callan	\$21,638
6	WTW Investment Services*	\$20,765
7	Wilshire Advisors	\$17,224
8	Russell Investments	\$9,174
9	Fiduciant Advisors*	\$9,100
10	Pentegra Investors	\$5,883



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# DC plan sponsors increasingly turning to OCIO

Challenging markets, more scrutiny driving institutional interest

By BAILEY McCANN

Greater scrutiny on plan design and performance is driving more defined contribution plan sponsors to consider outsourced CIO arrangements.

Indeed, a Vanguard Group survey released at the start of this year showed that plan sponsors have found the past few years challenging and are looking for external support to manage their plans. According to the findings, 49% say they employ an OCIO compared with 33% in the same survey conducted four years ago. The use of OCIOs increased across all types of plan designs including defined contribution plans. The findings anticipate that demand for OCIO services will continue to grow.

This tracks with what Jeremy France, Boston-based head of Graystone and institutional consulting at Morgan Stanley, is seeing in terms of outreach from potential clients. "There's a growing desire to

adopt OCIO through the defined contribution side of the house and put more governance around the DC plan," he said. "We are seeing that from all types of clients. I think as organizations have come out of the pandemic and are dealing with more than they ever have, they are realizing that with an OCIO they can have someone in a full-time, day-to-day investment management role and that they need that."

Morgan Stanley reported \$71.2 billion in total OCIO assets under management as of March 31, up 13.4% from the previous year, according to *P&I's* latest OCIO survey.

*P&I's* survey also found that the number of defined contribution OCIO clients is growing. The number of U.S. DC clients reported by OCIO firms jumped to more than 22,000 as of March 31, up 58.7% from the previous year's survey. Also as of March 31, OCIO firms reported a total of \$267.1 billion managed for U.S. DC clients with full or partial discretion, up 4.3% from the prior year and up 134.8% over the five-year period.

Mr. France said that working with an OCIO at the defined-contribution level can help with plan customiza-

tion. OCIOs are often tasked with identifying managers and funds that make it into the final lineup. "We have seen bigger plans doing more with their target-date fund offerings," he said. "Plans of all sizes are also using OCIOs as a fresh set of eyes on the investment menu and plan design. Not every defined contribution plan sponsor has an investment staff, so it can be helpful to bring someone in with that level of expertise."

Beyond investment tasks, OCIOs might work with plan sponsors on risk management or financial wellness, said Tim Braude, New York-based co-head of multiasset solutions at Goldman Sachs Asset Management.

Mr. Braude added that he's seeing more DC plan sponsors re-evaluate their approach, which could also include a shift to outsourcing. Goldman Sachs reported \$246.8 billion in OCIO AUM for all types of institutions as of March 31, up 2.9% from



**OTHER TASKS:** Goldman Sachs's Tim Braude said OCIOs can also help plan sponsors with risk management and financial wellness.

the previous year.

"We're at the point where we are at the end of a cycle and there is a lot of evaluation going on," Mr. Braude said. "I think that's going to continue as plan sponsors look to offload more of the investment and operational burden to their providers."

That operational burden could be significant — at least initially.

## Record-keeper changes

Michael Cagnina, senior vice president and managing director of the institutional group at SEI in Malvern, Pa., noted that plan sponsors that make the shift could need a new record keeper. If that happens, plan sponsors also need to go through notification and blackout periods. "Having to make those changes puts people off — at least initially — but you only have to make the change once and then any further updates or refinements will happen automatically through the OCIO," he said.

SEI reported a total of \$87.1 billion in OCIO AUM as of March 31, down 13.5% from the previous year, according to *P&I's* survey.

Mr. Cagnina added that now could be a worthwhile time to think through plan changes. There are a number of required compliance changes for defined contribution plans as a result of SECURE Act and SECURE 2.0, and plan sponsors may already be looking at whether their providers can meet their needs going forward.

"I think some of these rule changes are adding to the broader appetite for evaluation and considering a different type of approach," he said. "We're seeing more dialogue around it and it could make for a longer-term trend over the next five years."

"The discussion around defined contribution has started to pick up," agreed Amanda Nelson, New York-based principal at Casey Quirk, Deloitte's asset management strategy consulting business.

"We are hearing of OCIOs getting more pressure from consultants and gatekeepers to offer defined contribution outsourcing as well," she further noted. ■

## OCIO shift

CONTINUED FROM PAGE 1

"We're seeing all types of organizations — insurance companies, family offices, institutions — and we're seeing the pools of capital grow as well," said Tim Braude, co-head of multiasset solutions at Goldman Sachs Asset Management in New York. "If you were looking at OCIO 10 years ago, outsourcing \$1 billion would be considered a very large mandate. Now we regularly see pools in excess of \$5 billion that are going out to market looking for an OCIO relationship."

Mega OCIO hires from the past 15 months include:

- Royal Mail Pension Plan, London, which moved to an OCIO arrangement with BlackRock in February, transferring £8.8 billion (\$10.8 billion) in assets to the money manager.

- Hartford Healthcare Corp., which hired Morgan Stanley as OCIO manager for its \$4.3 billion in defined benefit and endowment funds last September, replacing its entire in-house investment staff.

- Bombardier Inc., Montreal, which hired Goldman Sachs Asset Management in April 2022 to provide investment management services for \$5.4 billion of pension and insurance assets and another \$3.6 billion for other clients that are no longer related to Bombardier.

- Centrica, Windsor, England, which moved to an OCIO model with Schroders Solutions for £10 billion (\$13.2 billion) in assets in three plans, also in April 2022.

BlackRock's Mr. Marshall believes a combination of factors is driving interest in OCIO in general. Investors are realizing that the new market regime of higher interest rates, higher inflation and more volatility is likely here to stay, which could mean asset allocation changes are needed. If an institution



**REASONS:** BlackRock's Ryan Marshall cited market factors, plus cost and complexity as driving OCIO interest.

doesn't have the right type of expertise in-house, outsourcing might make sense, he said.

Other factors like cost and complexity are driving new interest as well.

"Investors and even wealth managers are realizing that everything is much more complex now," he said. "Add to that the need to constantly update technology and manage compliance — while still keeping costs low — and many people are finding it makes more sense to partner with a firm that already has all of these capabilities in place."

Growing complexity isn't just impacting investors, however. It's also changing how OCIOs operate and how they compete for new business.

"The old way of providing a quarterly investment report and a brief update on economic trends really isn't adequate anymore," said Stephanie Lynch, co-founder, and managing partner-elect at Charlotte, N.C.-based Global Endowment Management. "Our clients are looking to us as an integrated investment partner."

For instance, for some of GEM's non-profit and education clients, funding structures changed significantly during the pandemic and af-

ter — creating new needs and a bigger role for the OCIO that might not be clear from looking purely at investment performance. "We were negotiating lines of credit, doing education on cash management," she said. "That fundamental operating support is significantly different from what we were doing during the go-go days of high valuations and low-interest rates."

GEM reported \$10.1 billion in institutional OCIO AUM with full or partial discretion as of March 31, down 7.3% from March 31, 2022, according to *P&I's* latest survey of OCIO firms.

## Focus on governance

Nikki Kraus, president and chief client officer at Arlington, Va.-based Strategic Investment Group, said that when investors look at the OCIO space now, whether it's to make a change in an existing relationship or start a new one, leaning on search consultants may not be the best move.

"There's a tendency to look at the performance data and the top-line offering and assume that it's just a matter of choosing between basically similar services and that's not really the case," she said. "The way I explain it to people is — this is going to be one of the highest paid, critical roles in your organization. If it was in-house, would you make that hire based on a one-hour meeting and the recommendation of a recruiter? Most people would not."

Ms. Kraus said when investors start looking at an OCIO, it's important to consider cultural fit as much as operations and services.

"A lot of the switching we're seeing right now is because investors got on the other side of a challenging market and realized that what they want out of an OCIO relationship isn't possible at their current provider," she said. "If you do two or three meetings upfront and understand what their culture is, or how

they approach active vs. passive management, or whether there are conflicts built into their operating structure — you can save a lot of time and headache."

Dan Newhall, head of Vanguard Group's institutional advisory services, agreed. "We spend a lot of time understanding the investment objectives and risk tolerance of the clients we work with," he said. "We also work with them on setting investment policy — in many ways setting up an OCIO relationship is a governance exercise. We want to build something that will be able to withstand all kinds of market cycles and won't be abandoned when markets are challenging."

## Scale vs. specialization

The OCIO space is relatively crowded; it's one of the few areas of asset management that hasn't seen much consolidation yet, and now that mandates are shifting to highly customized, total-portfolio solutions, it can be harder to compare offerings. But, at the most basic level, asset owners can still break out OCIOs by size and that does seem to have an impact on how OCIO firms position themselves when competing for business.

"The No. 1 thing we focus on is explaining to people the benefits of BlackRock's scale and how we can deliver that in a personalized way," Mr. Marshall said. "We get questions from our smallest clients, and honestly some of our largest clients, about how much they will mean to us as clients given the size of BlackRock. But we also have very low turnover — so I am confident that we are delivering on that promise of personalization. I think it's also hard to look past the technological scale, the purchasing power scale, and the investment scale BlackRock brings to organizations both large and small."

BlackRock's institutional OCIO AUM rose to \$197 billion as of March 31, up 6.8% from the previ-

ous year, making it one of the few positive gainers for the year and the third-largest OCIO manager in *P&I's* database.

Vanguard too leans on scale and cost efficiency, in addition to its message of staying the course.

"Our ownership structure is such that we are owned by our investors, which makes us unique and mission-driven," Mr. Newhall said. "We also have a seasoned team of investors that have delivered strong investment performance and we are able to deliver these services at very good fees. These have all played to Vanguard's advantage over the years."

Firms that focus on specialization take a slightly different view. While massive scale comes with certain efficiencies, they say, it doesn't solve every issue. And, they are quick to point out that the OCIO business is somewhat naturally limited in terms of how much it can scale. OCIOs can't manage an infinite number of client portfolios — even with the best technology.

Conshohocken, Pa.-based OCIO Hirtle Callaghan, for example, focuses on mission-driven family and non-profit clients as its first level of specialization and offers what it calls a conflict-free, independent OCIO structure. The result is something akin to an independent endowment-style investment office.

"Our compensation doesn't vary with our asset allocation, we aren't a product shop that puts together a suite of products — we operate as a fully independent investment office," said Jonathan Hirtle, executive chairman. "That's proven to be very important to the kinds of clients we work with and it does set us apart from other firms in the industry."

Hirtle Callaghan reported \$12.1 billion in OCIO AUM as of March 31, up slightly (0.83%) from the year prior.

## Boutique by design

Global Endowment Manage-

# Hiring

CONTINUED FROM PAGE 15

“We went through a pretty rigorous RFP process where we hired a consultant to help us because it was pretty complicated and the universe of possible OCIOs is vast,” Mr. Kaiser acknowledged.

Temple officials ultimately selected Strategic Investment Group to manage all of its \$803 million endowment, along with \$68 million and \$361 million in pension and post-retirement assets, according to board documents.

Mr. Kaiser said the OCIO has “professionalized” the school’s investment operation.

“They have strengthened our board’s fiduciary responsibility to the university by making sure that we are getting the best guidance, best advice, and best execution of all of our investments vs. being driven by a board that is not investment professionals.”

He added: “From a staff perspective, it (the OCIO model) really shields the staff from what I would call nonsense where you are being asked by the board or others to ‘talk to this firm’ and it turns out to be a firm with local political ties trying to get a piece of the endowment or something. It’s very easy to punt

that to the OCIO, and in most cases, those firms don’t make it through the OCIO’s filter.”

The ability to change course quickly in fast-moving markets is another benefit of the OCIO model, Mr. Kaiser said.

“Prior to working with an OCIO, if something was happening and we needed to make a move, you’d have to wait until the next investment committee. You’d possibly have to bring in two or three managers. So by the time you’re ready to make a move in response to something or in anticipation of something, it’s too late. With the OCIO they just execute where appropriate.”

Temple’s board set the asset allocation according to an investment policy statement the board created with input from the OCIO, which then executes on allocation decisions. The OCIO is responsible for all of the risk management, and hiring and firing of managers. A separate consultant monitors the OCIO, which Mr. Kaiser declined to name.

Mr. Kaiser said going through the OCIO RFP process helped crystallize Temple’s investment philosophy because staff had to get specific about what they wanted the OCIO provider to do.

“I think the big misconception is that the investment committee is not fulfilling our duty if we give an

OCIO full discretion over our portfolio,” Mr. Kaiser said. “However, through our research, as we were deciding on which investment model to select, everything pointed to us actually improving on our fiduciary duty and fulfilling our responsibilities with an OCIO as long as we are monitoring them and not just handing them the keys and walking away.”

## Searches on rise

SSGA’s Mr. Kennelly noted that the recent banking crisis is “prompting searches for heightened safeguards.” Among non-profits, he has observed an “increase in searches to replace existing OCIO arrangements for better fees, additional services and improved risk analytics to enhance overall governance.”

SSGA reported \$152.9 billion in outsourced AUM as of March 31, making it the sixth-largest OCIO in P&I’s database, down 15.9% from the prior year.

Jennifer Kruse, New York-based U.S. OCIO leader at Mercer, cautioned that while her firm is definitely seeing an increase in OCIO searches and hires, it is unclear if this is market-driven, or if it’s due

to “business prioritization of resources and expertise.”

Mercer is the largest OCIO firm with discretion in P&I’s database, with \$337.7 billion in outsourced AUM as of March 31, down 8.8% from a year earlier.

Search activity for OCIOs has indeed “picked up quite a bit,” ac-

them understand what they are looking for in a partner and which partners provide the desired attributes. The search consultants also provide clarity around OCIO provider investment approach, historical results, and transparency around fees.”

TIFF Advisory, a subsidiary of TIFF Investment Management, had \$8.3 billion in outsourced AUM as of March 31, up 6.4% from a year prior.

But Steve Charlton, Boston-based head of client solutions and partner at NEPC LLC, countered that the hiring process is not getting easier.

“The growth of third-party evaluation firms as the stewards of OCIO searches has required the OCIO industry to invest in additional resources and capabilities to answer more in-depth questions coming from TPEs,” he said in an email. “TPEs generally take a deeper dive during the due-diligence process relative to asset owner-driven RFPs, so the hiring process is not getting easier in the OCIO space.”

NEPC reported \$61.5 billion in outsourced AUM as of March 31, slightly below its \$61.7 billion figure a year prior. ■



**Third-party evaluation firms ‘generally take a deeper dive during the due-diligence process ... so the hiring process is not getting easier in the OCIO space.’**

NEPC’S STEVE CHARLTON

knowledgeable Kane Brennan, Radnor, Pa.-based CEO of TIFF Investment Management, adding that “several search consultants have said 2023 is shaping up to be the busiest year so far.”

Mr. Brennan agreed with Mr. Lennie that the OCIO hiring process has gotten easier with the use of third-party search consultants.

“The search consultants make the evaluation and selection of a provider much less time-intensive,” he said in an email. “Organizations lean on search consultants to help



**MORE THAN PERFORMANCE:** Strategic Investment Group’s Nikki Kraus thinks cultural fit is just as important as operations and services when hiring an outsourced CIO.

ment, too, focuses on a specific type of client — typically foundations and endowments — and calls itself a boutique by design. “We’re really focused on a support and partnership model. It’s a build-to-suit type of approach,” Ms. Lynch said. The firm works with clients at both a governance level and an investment level and leans on having firsthand knowledge of what foundations and endowments are up against. Ms. Lynch herself was previously CIO at the Duke Endowment, the \$3.3 billion family foundation of James B. Duke, before starting GEM in 2007.

“We also subscribe to the view that size is the enemy of performance across basically all asset classes except private credit,” Ms. Lynch said. “And so the ability to implement strategies that are going to generate outsized returns doesn’t work well at scale.”

Build-to-suit is also the approach of SEI, which has invested heavily in technology over the years

to be able to create whatever structure clients ask for. Mike Cagnina, Malvern, Pa.-based senior vice president and managing director of the institutional group at SEI, said the investment in technology combined with the long tenure of the investment team gives them a unique perspective.

SEI reported \$87.1 billion in OCIO AUM as of March 31, down 13.5% from 2022.

“If you want to generate alpha in a portfolio, you have to have a long history of doing it,” Mr. Cagnina said. “You have to have the relationships and you have to be able to gather the data, model it and understand what managers are doing to generate their returns. There is a lot of complexity involved in that and it can be hard to build that up in-house.” SEI added its first OCIO client in 1992.

Mr. Cagnina added that the technology also allows them to model out future scenarios and test portfolios. ■

“Go back 10 years ago, for example, and we had small allocations to managers that were sensitive to inflation,” he said. “People were questioning ‘Why is this in my portfolio?’ And we said we don’t know exactly when inflation is going to happen. But, what we were able to do was take that small allocation and increase it when we started seeing trends and economic indicators that would say inflation is coming. So that’s the benefit of that operational backdrop.”

The firms leaning on scale may concede that the specialists have a point — and, could become more specialist as time goes on. Both BlackRock and Goldman Sachs Asset Management, for example, have been in the news recently for lifting out investment teams and bringing them over to their OCIO business in part because they had specific capabilities.

For instance, when Bombardier hired GSAM as its OCIO last year, former members of the Bombardier Global Pension Asset Management team joined GSAM. Additionally, under Royal Mail’s OCIO arrangement with BlackRock in February, three investment staff, including CIO Ian McKnight, moved to BlackRock.

Both firms say they’re open to similar arrangements in the future.

“We have been able to grow our capabilities by bringing some teams in-house and our clients appreciate the continuity of working with the same people,” Mr. Marshall said.

GSAM’s Mr. Braude said the trend is also picking up globally. “We’re seeing more traction for lift-outs in the U.K., we have also seen it happen in the Netherlands. We did our first acquisition in 2015 and since then we have been quite active in the marketplace.”

Goldman Sachs had \$246.8 billion in OCIO assets as of March 31, up 2.9% from 2022, making it the second-largest institutional OCIO firm with discretion in P&I’s database. ■

# Liquid

CONTINUED FROM PAGE 6

from the boutiques in the liquid private equity space, meanwhile, haven’t become commoditized, with each offering its own mix of publicly listed equities, leverage and hedging to deliver private equity-like returns to clients.

PEO Partners, for example, focuses on the small- and midcap targets of leveraged buyouts, with a strategy to “buy what they buy,” since industry selection is private equity’s biggest source of alpha, “leverage like they leverage and protect the downside,” Mr. Cohen said.

## Different focus

DSC, by contrast, focuses on large-cap stocks and doesn’t hedge its current lineup of private equity replication beta strategies, reflecting its investment team’s belief that the resilience private equity valuations have traditionally shown when markets plunge is more “stale pricing” myth than reality.

“Whenever you have liquidity, you’re going to have a true valuation,” noted Arthur R. Bushonville, CEO of DSC Quantitative. “When you don’t have liquidity, then you’re marking (your private equity exposures) to a price which may or may not trade,” setting the stage for the kind of stale pricing where the denominator effect comes into play, he said.

Still, DSC executives conceded that for big asset owners potentially sitting on commitments that could take 12 months or more to call down, hedging downside volatility on a portfolio of leveraged, publicly listed stocks could have some appeal.

On June 27, DSC announced that as early as July, it will bring out the first of a number of new liquid private equity strategies, benchmarked to Boston-based Cam-

bridge Associates LLC’s global private equity and venture capital indexes, which will include hedging to manage volatility.

By contrast, Messrs. Lelogeais and Cohen at PEO Partners said they may come out with unhedged strategies in the future.

Dan Rasmussen, founding partner at Verdad, said his firm invests mainly in microcap stocks with debt on their balance sheets that replicates private equity exposures, as opposed to relying on the options or margin leverage other strategies employ.

Mr. Rasmussen said Verdad manages roughly \$500 million in private equity replication strategies, with \$230 million in its opportunity fund and the other \$270 million spread across two funds that invest in Japanese equities, as well as one Europe-focused fund and one global fund.

In another sign that legacy private equity replication boutiques see their market segment entering a new phase of growth, executives at both DSC and PEO Partners said they’re pursuing talks now with potential distribution partners that would give those firms the resources they would need to reach a much larger audience.

DSC’s search for a partner — whether that turns out to be one partner globally or a number of partners for different regions — is the firm’s first since its launch in 2012, noted Mr. Knupp, calling the move a reflection of how the market “has grown and evolved” over that time.

Likewise, PEO Partners’ Mr. Lelogeais said his firm is having a number of strategic conversations now looking for “the right partner that could help us take the business to the next level.” Those wide-ranging talks include quant firms, big asset owners and big registered investment advisory firms, which could offer great distribution, he said. ■

# A RISING TIDE LIFTS PRIVATE CREDIT

SEE ARTICLE AND VIDEOS ONLINE  
[www.pionline.com/private-credit-rt2023](http://www.pionline.com/private-credit-rt2023)

Private credit plays an increasingly critical role in providing financing to businesses, given current constraints in the public markets and banking sector. For institutional investors, the higher yields and floating-rate nature of the asset class make it particularly attractive in the current interest rate cycle. Private credit has demonstrated an impressive track record over the past decade and continues to attract strong inflows, but success has brought its challenges. Which market segments offer opportunity today? How can managers stay disciplined in the face of a multitude of opportunities to deploy capital? How should asset owners evaluate managers going forward? A rising tide has lifted all boats, but what happens when the tide goes out?

To learn more about the dynamics of private credit today, *Pensions & Investments* spoke with Kevin Sterling, global co-head of private credit at Goldman Sachs Asset Management; Zia Uddin, president of Monroe Capital; and Richard Miller, head of private credit at TCW.

**Pensions & Investments:** As we come into the latter half of the year, what are the key macro issues impacting private credit, such as banking sector turmoil, credit tightening, a shift in the interest rate cycle and recession concerns?

**ZIA UDDIN:** All of the above have benefited private credit. While inflation represents a headwind for many prospective borrowers, a higher interest rate environment is a significant benefit to private credit because almost everything we do is floating rate. The income we're getting paid today by our existing borrowers is probably 400 basis points higher than they were paying a year ago. We are entering a golden age of private credit. Private credit has shown resilience versus the public markets. The issue for investors to keep in mind is that a lot of managers came online post the 2008-2009 Great Financial Crisis. It's unclear if they can successfully navigate a more challenging environment.

**RICHARD MILLER:** We worry about the state of the economy, as a slowdown could cause operating cash flow to decline. If rates continue to rise, that probably means inflation persists. If rates drop quickly, that probably indicates a recessionary environment. The direction of interest rates should be top of mind as it should be a good indicator of the direction that the economy is heading.

Having said that, middle-market direct lending should be a safe harbor, a place to retreat in an uncertain economic environment, because direct lenders are at the top of the capital structure as the senior secured lender. Senior secured debt is supposed to have three valuable hedges: top of the capital structure, floating interest rates and a loan document with covenants, limitations and restrictions. If anything in that document is violated, the lender can return to the

table and is able to reassess the risk situation and economic terms.

In the past few years, our market has moved away from some of those critical document protections. Unfortunately, the increased borrower-friendly lending that we've seen over the last few years has diluted many of the protections that this asset class should have never capitulated on.

**KEVIN STERLING:** Macroeconomic uncertainty is clearly a focus in assessing individual company performance and ability to manage through a changing landscape. Having said that, these uncertainties have also created opportunities for private credit as base rates are higher and credit spreads are wider. Macro factors that impact underlying business performance also present opportunities to deploy capital in creative, solution-oriented ways. To the extent macro concerns increase market volatility, this favors private credit because traditional financing sources become more scarce.

Private credit has grown as an asset class, but it's been part of the financing landscape for decades, including our own history at Goldman Sachs Asset Management dating back to 1996. Borrowers now have a greater suite of financing options within private credit and the opportunity to evaluate larger financings than were available 10 years ago. Private credit has traditionally been priced at a premium to public markets, and we would expect this to continue.

**P&I:** What tailwinds continue to support private credit – and direct lending in particular? In which segments do you see opportunity?

**STERLING:** One of the reasons for growth in the asset



**KEVIN STERLING**

GLOBAL CO-HEAD OF PRIVATE CREDIT  
GOLDMAN SACHS ASSET MANAGEMENT



**ZIA UDDIN**

PRESIDENT  
MONROE CAPITAL



**RICHARD MILLER**

HEAD OF PRIVATE CREDIT  
TCW

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Middle-market direct lending should be a safe harbor, a place to retreat in an uncertain economic environment, because direct lenders are at the top of the capital structure as the senior secured lender.

— RICHARD MILLER, TCW

class — and some of the pricing premium relative to public markets — is the mutually beneficial relationship between borrowers and investors. Private credit can offer borrowers speed, certainty of execution, flexibility in financing and confidentiality. Meanwhile, investors can benefit from higher yields, lower volatility, downside management and floating-rate exposure, with the cost of capital commensurate with the current environment. Investors can be the most senior in the capital structure, be defensively positioned and earn compelling risk-reward returns.

**UDDIN:** There is structural supply-demand imbalance. One is an imbalance between the availability of direct lending dry powder versus private equity dry powder. That's good for the industry and one of the reasons why private credit is growing. It looks like this imbalance will persist for the foreseeable future.

The second part is the regional banking system. When banks go through crises, there's more regulatory oversight and they pull back, which shifts market share from the banks to the private credit arena. From a tailwind perspective, it's simple supply and demand. But there are certain segments where there are bigger opportunities, most notably in venture debt. Silicon Valley Bank, one of the largest players, and others have gone away, so now there is a tremen-

dous opportunity there for other firms to step in and fill that vacuum.

Lastly, another important area of focus is investment strategies that are asset oriented, which is how we see opportunistic credit. Having a nimble asset-oriented and asset-backed investment product allows asset managers to take advantage of dislocation in the market or volatility in certain segments.

**MILLER:** A contributing factor to AUM growth has been the search for yield by institutional investors and retail investors alike. In a higher rate environment, investors benefit from the floating rate structure

of senior loans and enjoy the increases in base rates. However, in an economic slowdown, investors should expect base rates to decline and corporate credit risk to rise. In that environment, where else would you rather be than the top of the capital structure? That's a powerful seat to be in, especially if a borrower begins to struggle. Senior secured lenders have a host of remedies to pursue should a borrower underperform. With the proper loan documentation in place, lenders can take advantage of actionable triggers in periods of underperformance to work collaboratively with the borrower, including providing liquidity relief, providing additional capital, working through a restructuring or, in a more extreme case, owning and operating the business.

**P&I:** What specific portfolio objectives does private credit help meet today? Has that shifted since the start of this rate cycle?

**MILLER:** First and foremost, private credit's sole objective should be preservation of capital. A manager must prioritize risk mitigation above all else. If you can avoid principal losses, you will survive in this marketplace for a very long time. TCW Private Credit has been a consistent presence in the market for almost 23 years. In an uncertain climate, return of capital sometimes is more important than return on capital.



**EXPERIENCE. SECURITY. CONSISTENCY.**

Monroe Capital LLC (“Monroe”) is a premier boutique asset management firm specializing in private credit markets across various strategies, including direct lending, asset-based lending, specialty finance, opportunistic and structured credit, and equity. Since 2004, the firm has been successfully providing capital solutions to clients in the U.S. and Canada. Monroe prides itself on being a value-added and user-friendly partner to business owners, management, and both private equity and independent sponsors. Monroe's platform offers a wide variety of investment products for both institutional and high net worth investors with a focus on generating high quality “alpha” returns irrespective of business or economic cycles. The firm is headquartered in Chicago and maintains offices in Atlanta, Boston, Los Angeles, Miami, Naples, New York, San Francisco, and Seoul. For more information about Monroe Capital and important disclaimers, please visit [www.monroecap.com](http://www.monroecap.com).



**UDDIN:** Private credit provides a steady, predictable current yield with less volatility than other risk assets. The highs are not as high and the lows are not as low as valuations are primarily driven by underlying fundamentals and returns are driven by contractual coupons, rather than dramatic swings in fair value. Over the last 10 years, institutional investors have not had a lot of options for yield, which drove the growth of the private credit asset class. Today, they have other options. So how does private credit compete? It has to deliver the second piece of the equation, which is lower volatility and less risk of loss, even in a potential recessionary environment.

**STERLING:** From the limited partnership and asset allocator perspective, this is an opportunity to potentially reallocate a portion of the fixed-income portfolio to private credit in order to achieve greater cash income. You could also potentially reallocate a portion of your private equity portfolio into a strategy that is focused on capital appreciation, such as hybrid capital, which bridges the gap between pure credit and pure equity.

**P&I: Have deal structures changed or underwriting standards tightened, and if so, why? What key features do you focus on?**

**UDDIN:** Loan-to-value ratios continue to come down. Covenants and the definition of EBITDA is tighter. One reason may be that lenders are waiting until they see better opportunities. At Monroe Capital, we're focused on cash flow, not EBITDA [or earnings before interest, taxes, depreciation and amortization]. It's a simple question: Are the cash flows adequate to meet the needs of the business as well as service their debt? It's shocking how many lenders are not focused on this. EBITDA is important, but we're focused ultimately on cash generation. The good news is that we've maintained this disciplined underwriting process for about 20 years.

**STERLING:** The direct lender community remains focused on credit documentation and covenant protections around lending. That is further elevated in this environment, but it is something that we are focused on at all times and has been a consistent approach throughout our decades of investing.

**MILLER:** Senior secured loan structures and underwriting standards should always be tight. There is little to be gained from loosening such standards. Announcing a return to more conservative lending is not a good sign for a manager. If someone is changing standards dramatically, investors should beware.

**P&I: Private credit represents a spectrum of strategies. What is your area of focus and why?**

**STERLING:** We believe private corporate credit is particularly compelling. From a yield perspective alone, private credit has historically maintained a premium over public markets across multiple economic cycles. We believe this will likely continue.

Within the Goldman Sachs Private Credit Asset Management platform, we're able to finance high-quality companies in a yield environment that's at 10-plus percent unlevered yields. Investors are also the most

Photo credit: iStock



senior in the capital structure and thereby more defensively positioned.

What private credit and direct lending offer today is not just elevated yields, but also the ability to structure transactions. We focus on documentation, making sure that the protections that we want are well outlined and well structured. What private credit can potentially offer an LP is a fixed-income equivalent that can be defensive in nature and floating rate, at a premium to what the public markets offer. It is an income opportunity, a defensive-play opportunity and exhibits superior relative risk-adjusted returns.

**MILLER:** We are a lender to middle-market borrowers with at least \$15 million of EBITDA, although our average borrower generates closer to \$60 million of EBITDA. The TCW Private Credit strategy was designed to deliver a premium return while focusing on preservation of capital. We have been able to generate these returns with a risk profile at or below the conventional market by investing in the misunderstood, the complicated, the less popular — or deals overlooked by the conventional market. We also made the conscious choice to lend to both sponsored and nonsponsored borrowers, enabling us to remain highly selective and find situations with the right risk-reward balance. This approach has kept us in a unique lane.

**UDDIN:** At Monroe Capital, we try to add value where we have an edge, which is to create alpha for our limited partners. The edge can be in information, inefficiencies in the market or via our long history of types of deals in certain sectors. Our area of focus is direct lending to lower-middle market companies with EBITDA of \$35 million and under. Venture debt is another. These markets need specialization and offer a creative opportunity to earn alpha. We can leverage our core capabilities in origination as well as our bottom-up philosophy in underwriting and heavy focus on portfolio management and monitoring. The

value that we can offer as private credit providers is transaction execution, tailored bespoke solutions and more incremental dry powder to go on the offense.

**P&I: Have you adapted your strategy to navigate current market dislocations in order to find opportunistic or selective investments?**

**MILLER:** No. This asset class should not be vintage sensitive. This is a good time to be investing in it, but the return profile should not be any better than what it was historically, aside from the higher underlying base interest rates. A private credit manager should always maintain a disciplined approach and be a consistent investor in all investment environments.

**UDDIN:** Now is not the time to reach for risk and go overboard on deployment. As lenders, we're pessimistic and conservative in nature. Managers that have dry powder in a chaotic environment tend to have better and more attractive relative terms. Those terms will get more attractive over the coming quarters as the cycle plays out. If you're patient and disciplined, it works out in the long run.



We believe private corporate credit is particularly compelling. From a yield perspective alone, private credit has historically maintained a premium over public markets across multiple economic cycles.

— KEVIN STERLING, GOLDMAN SACHS ASSET MANAGEMENT

**STERLING:** Across our direct lending franchise, we have not changed our investment philosophy in order to find opportunities to deploy capital. We remain focused on the core tenets of our underwriting process. When evaluating credits, we look for recession resilient businesses with predictable business models that have a differentiated product. We focus on the borrower's ability to generate free cash flow. We then overlay credit documentation, which is critical to create the enhanced protections and monitoring that we want as a lender.

**P&I: How are investors accessing private credit — closed-end funds, interval funds, business development companies?**

**UDDIN:** The closed-end drawdown vehicle still remains a dominant structure and one where we are seeing innovation. For example, there are tax treaty structures that make it more advantageous for offshore investors to invest. For tax purposes, there has been tremendous growth in private and unlisted BDCs, which are evergreen in nature and also offer investors some liquidity after a period of time. This taps into the wealth management channel as well, which is vastly under-allocated to alternatives and private credit. But the industry needs to be careful there's not too much of a mismatch between the duration of assets and liabilities. These are illiquid assets.

**STERLING:** There are different types of vehicles and structures that are available to access private credit. The two main ones in the market are the business devel-

opment company structure and traditional drawdown funds. The BDC is more income focused, with recent iterations, namely the non-traded BDC, deploying capital instantly and providing quarterly liquidity. Traditional drawdown funds deploy capital over a multiyear period and returns to investors are a combination of income and capital appreciation. The BDC product has also become popular with retail investors and has gained momentum in recent years.

**MILLER:** Investors are using all kinds of different vehicles to structure around their needs, wants and requirements. There is no one-size-fits-all vehicle. Investors need to understand they are investing in an illiquid asset class. There's no secondary market for trading middle-market senior loans. The managers of these various structures have to be very clear on the limitations of the attributes they're selling to investors. That said, by and large, the introduction of new structures is a healthy evolution of the asset class.

**P&I: What should investors look for in a private credit manager? What characteristics drive success?**

**STERLING:** In our view, there are four key pillars to look for in a manager, the first one being capital. You need to be of critical size to be impactful. But you must also have the capacity and flexibility to solve borrowers' needs across the capital structure in all types of markets and market conditions. The second key pillar is people. You need a tenured, experienced investment team that has expertise in sectors and geographies

and can provide local knowledge and a comparative perspective. The third key pillar is resources that are complementary to the investment team's knowledge and experience. Do you have colleagues in private equity within the same platform to hear what they're seeing on the ground? Can you bring in tax, legal, accounting and industry knowledge?

The last pillar, which we believe is absolutely fundamental, is origination capacity as an investor. You want the widest funnel possible from which to evaluate new investments. Goldman Sachs Asset Management has an exceptionally wide funnel. We invest in only a small percentage of the opportunities that we see. Combining capital, relevant and experienced people, the right resources and a wide origination capacity allows the credit manager to be selective and to use their experience to inform investment decisions.

**MILLER:** Private credit has been a great beta trade since 2010. It has been a benign, favorable environment in which to be a lender. Everyone's returns have bunched together. There hasn't been a lot of differentiation. That's about to change.

The next four or five years are going to be very different from the previous 12 years. Many managers have never managed through an extended economic slowdown or widespread defaults. Investors should look for managers with an extensive body of work managing through underperformance with a well-developed playbook to actively work through challenging times. We believe that

## Opportunity in Private Credit Rests on Solid Risk Management

As rates rise, credit contracts, and the business environment becomes challenging, selecting an experienced manager matters more than ever.

With over 22 years in the private credit market and an unwavering commitment to consistent underwriting standards focused on principal preservation above all else, TCW has navigated successfully across multiple market cycles.



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The difference between now and the next couple of years is going to come down to the experience level of the private credit manager. Deploying money is easy; what is difficult to achieve is, how do you get that money back?

— ZIA UDDIN, MONROE CAPITAL

managers should have a consistent investment strategy and risk approach; be positioned to take advantage of tight and restrictive loan documentation, including actionable financial covenants; emphasize modest leverage ratios; and, generally, invest in a more pessimistic fashion to protect downside risk. Investors should seek a manager who has shown the ability to nurse underperforming companies back to health, operate in restructurings and navigate through bankruptcies — in essence, one who can utilize and pursue all of the remedies available as a senior secured lender.

The most important objective in this asset class is to avoid principal loss. If you can do that, your investors will thrive and you will endure for years across cycles. We're proof of it.

**UDDIN:** When evaluating private credit lenders, you have to view them on their worst deals. Understand their real workout capability, their proven track records, their tenure, how disciplined they are. The challenge is that it's hard to find a direct lender or private credit manager who hasn't made money in the last 10 years.

The difference between now and the next couple of years is going to come down to the experience level of the private credit manager. Deploying money is easy; what is difficult to achieve is, how do you get that money back? In the U.S., there are not a lot of managers like Monroe Capital with a track record going back nearly 20 years; most of them have 10 to 12 years. It's hard to draw a conclusion on that time frame because it's been a bull market for the industry.

**P&I: What's your near-term outlook for private credit? What aspects will become more important for investors looking to enter or expand their allocations?**

**MILLER:** It has been a very favorable time for private credit. But in an uncertain economic climate and possible contraction, where do you want to be positioned? What is safest for investors is to be at the top of the capital structure, in a secured position, with a restrictive loan agreement that contains triggers if a company deviates materially from plan.

TCW Private Credit has three primary objectives today. One is to protect the investments we've made in the past that exist in our legacy portfolios. With our consis-

tent underwriting approach, we're well positioned for that. Second is to take advantage of a thinned out competitive landscape where there are fewer eager lenders. Despite the amount of dry powder in the market, most middle-market lenders are waiting for the private equity sponsor buyout activity to return before becoming more active. Third, there's going to be an opportunity within private credit to take advantage of overly aggressive lending that has taken place in recent years and weak loan documentation. Add to that the significant rise in interest rates and a potential economic slowdown and you've got the ingredients for stress within the middle market. This should create a very attractive investment opportunity for experienced managers.

**STERLING:** We're excited about what private corporate credit can potentially offer to borrowers in terms of value because of the mutual beneficial relationship with lenders. Because of that, we're positive about the potential risk-reward opportunity that this asset class offers to investors. We're in a higher interest rate environment, with macro pressures on banks, which we believe creates an opportunity for nonbank lending markets in private credit.

Goldman Sachs Asset Management has been investing in private credit for 25+ years and has invested across various economic environments by staying focused on our core investment philosophy and being selective in our approach. Being connected to a Tier 1 investment bank provides a valuable sourcing engine that allows us to be selective. Our size and scale, longevity in the space, benefit of incumbencies and large underwriting team with deep specialization are key differentiators.

**UDDIN:** Higher interest rate environments drive higher returns. But can you manage the risk of loss? Higher defaults just mean you have a seat at the table sooner than before. If you structure the deals conservatively and monitor them on a hands-on basis, you can deliver equity-like returns through this vintage. If you have the dry powder, you will get the best opportunities.

This should be a golden era of private credit for the managers who know what they're doing. Monroe delivered very high returns through the Great Financial Crisis. It was because if you're disciplined, you can dictate better terms when people need capital and markets are not operating in their historical norms. ■

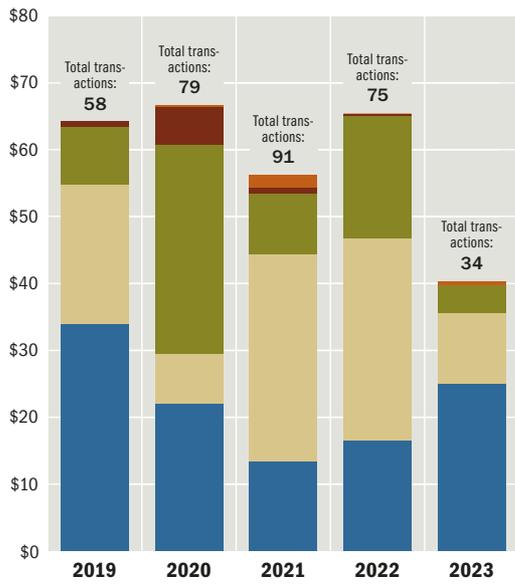


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# BY THE NUMBERS

## Pension risk transfer activity

Total completed transactions (billions)

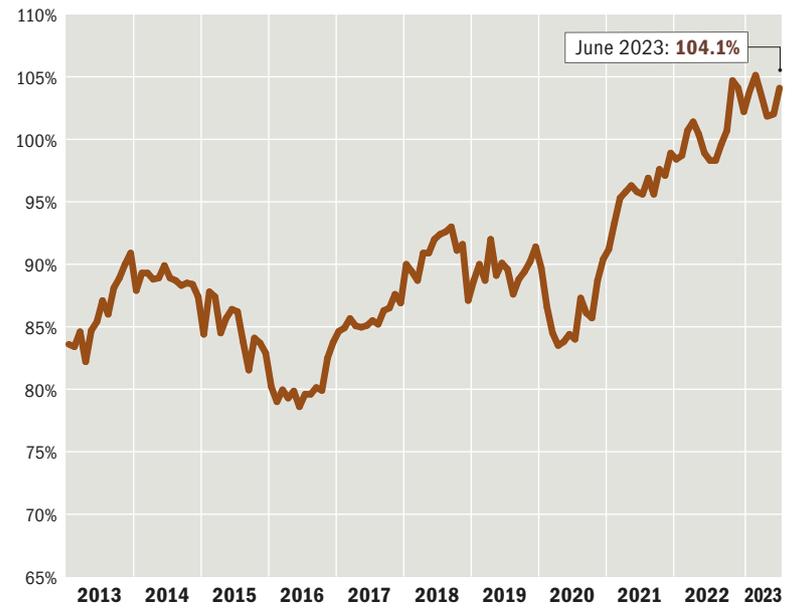


Most recent transactions (millions)

Type	Sponsor	Date	Assets
Other	United Utilities Group	July 12	\$2,300
Lump-sum acceptance	API Group	July 5	\$1,400
Lump-sum offer	Mabey Holdings	June 28	\$120
Longevity swap	Nationwide Pension Fund	June 21	\$2,100
Buyout	MGM Assurance Staff Pension Plan	June 19	\$101
Buy-in	Harrods Group Pension Plan	June 12	\$503
Buy-in	Aegon U.K. Staff Retirement and Death Benefit Scheme	June 5	\$199
Buy-in	Timpson Group Pension Scheme	May 23	\$124
Buy-in	DXC Technology	May 19	\$1,000
Buy-in	British Steel Pension Scheme	May 17	\$3,400
Buy-in	Thomas Cook Group	May 5	\$1,100

For details on all recent pension risk transfers, go to [pionline.com/pension-risk-transfer](https://pionline.com/pension-risk-transfer).

## Monthly corporate funding ratio

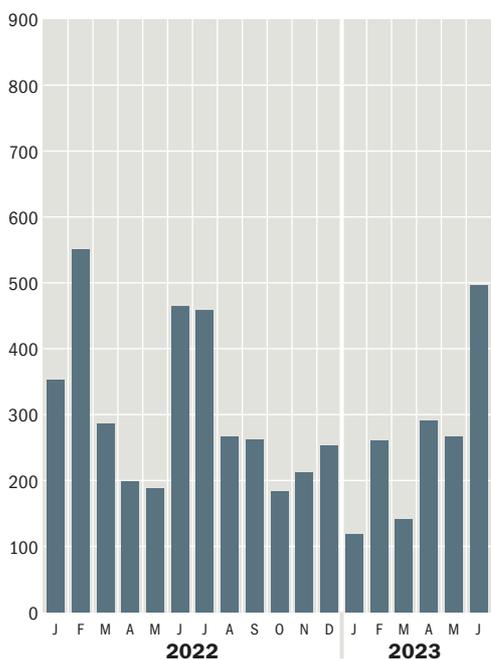


## Trailing 12-month returns by asset class

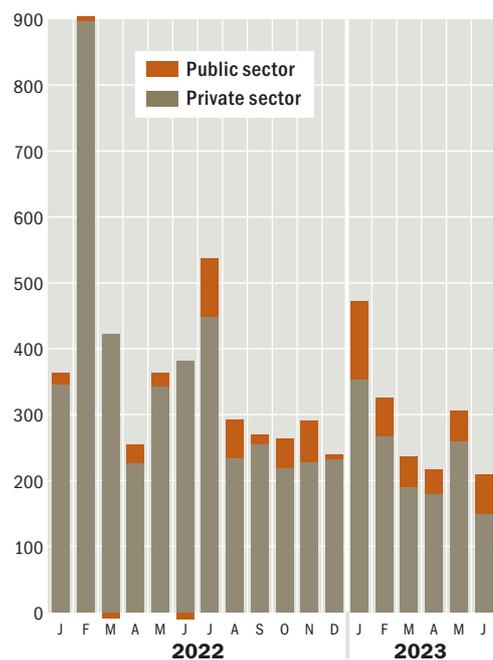
2021						2022												2023					
July	August	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June
Russell 2000 52.0%	Russell 2000 47.1%	Russell 2000 47.7%	Russell 2000 50.8%	S&P 500 27.9%	S&P 500 28.7%	S&P 500 23.3%	S&P 500 16.4%	S&P 500 15.6%	Real Estate 0.7%	Cash 0.1%	Cash 0.2%	Cash 0.2%	Cash 0.4%	Cash 0.6%	Cash 0.8%	Cash 1.1%	Cash 1.5%	Cash 1.9%	Cash 2.2%	Cash 2.6%	MSCI ACWI ex-U.S. 3.0%	Cash 3.3%	S&P 500 19.6%
S&P 500 36.4%	S&P 500 31.2%	S&P 500 30.0%	S&P 500 42.9%	Russell 2000 22.0%	Real Estate 23.0%	Real Estate 18.1%	Real Estate 10.6%	Real Estate 12.2%	S&P 500 0.2%	S&P 500 -0.3%	BB U.S. Agg -10.3%	S&P 500 -4.6%	High Yield -10.6%	High Yield -14.1%	High Yield -11.8%	High Yield -9.0%	High Yield -11.2%	Russell 2000 -3.4%	High Yield -5.5%	High Yield -3.3%	Cash 2.9%	S&P 500 2.9%	MSCI ACWI ex-U.S. 12.7%
Real Estate 31.2%	Real Estate 30.5%	Real Estate 27.1%	Real Estate 38.3%	Real Estate 19.7%	Russell 2000 14.8%	MSCI ACWI ex-U.S. 3.6%	High Yield 0.6%	Cash 0.1%	Cash 0.1%	Real Estate -5.2%	S&P 500 -10.6%	High Yield -8.0%	S&P 500 -11.2%	BB U.S. Agg -14.6%	S&P 500 -14.6%	S&P 500 -9.2%	BB U.S. Agg -13.0%	High Yield -5.2%	Russell 2000 -6.0%	BB U.S. Agg -4.8%	S&P 500 2.7%	High Yield 0.0%	Russell 2000 12.3%
MSCI ACWI ex-U.S. 27.8%	MSCI ACWI ex-U.S. 24.9%	MSCI ACWI ex-U.S. 23.9%	MSCI ACWI ex-U.S. 29.7%	MSCI ACWI ex-U.S. 9.1%	MSCI ACWI ex-U.S. 7.8%	High Yield 2.1%	Cash 0.0%	High Yield -0.7%	High Yield -5.2%	High Yield -5.3%	High Yield -12.8%	BB U.S. Agg -9.1%	BB U.S. Agg -11.5%	S&P 500 -15.5%	BB U.S. Agg -15.7%	MSCI ACWI ex-U.S. -11.9%	MSCI ACWI ex-U.S. -16.0%	MSCI ACWI ex-U.S. -5.7%	MSCI ACWI ex-U.S. -7.2%	MSCI ACWI ex-U.S. -5.1%	High Yield 1.2%	MSCI ACWI ex-U.S. -1.4%	High Yield 9.1%
MSCI EM 20.6%	MSCI EM 21.1%	MSCI EM 18.2%	MSCI EM 17.0%	High Yield 5.3%	High Yield 5.3%	Cash 0.0%	MSCI ACWI ex-U.S. -0.4%	MSCI ACWI ex-U.S. -1.5%	BB U.S. Agg -8.5%	BB U.S. Agg -8.2%	Real Estate -13.5%	Real Estate -9.8%	Real Estate -16.6%	Real Estate -22.4%	Russell 2000 -18.5%	BB U.S. Agg -12.8%	S&P 500 -18.1%	S&P 500 -8.2%	S&P 500 -7.7%	S&P 500 -7.7%	BB U.S. Agg -0.4%	BB U.S. Agg -2.1%	Cash 3.7%
High Yield 10.6%	High Yield 10.1%	High Yield 11.3%	High Yield 10.5%	MSCI EM 2.7%	Cash 0.0%	Russell 2000 -1.2%	BB U.S. Agg -2.6%	BB U.S. Agg -4.2%	MSCI ACWI ex-U.S. -10.3%	MSCI ACWI ex-U.S. -12.4%	Global ex-U.S. fixed income -18.8%	Russell 2000 -14.3%	Russell 2000 -17.9%	Russell 2000 -23.5%	Global ex-U.S. fixed income -24.6%	Russell 2000 -13.0%	Global ex-U.S. fixed income -18.7%	BB U.S. Agg -8.4%	BB U.S. Agg -9.7%	MSCI EM -10.7%	Russell 2000 -3.6%	Russell 2000 -4.7%	MSCI EM 1.7%
Global ex-U.S. fixed income 1.7%	Global ex-U.S. fixed income 0.7%	Cash 0.1%	Cash 0.1%	Cash 0.1%	BB U.S. Agg -1.5%	BB U.S. Agg -3.0%	Russell 2000 -6.0%	Russell 2000 -5.8%	Global ex-U.S. fixed income -15.5%	Global ex-U.S. fixed income -16.7%	MSCI ACWI ex-U.S. -19.4%	MSCI ACWI ex-U.S. -15.3%	MSCI ACWI ex-U.S. -19.5%	Global ex-U.S. fixed income -24.8%	MSCI ACWI ex-U.S. -24.7%	Real Estate -16.9%	MSCI EM -20.1%	MSCI EM -12.1%	Real Estate -14.4%	Global ex-U.S. fixed income -10.7%	Global ex-U.S. fixed income -3.9%	Global ex-U.S. fixed income -6.5%	BB U.S. Agg -0.9%
Cash 0.1%	Cash 0.1%	BB U.S. Agg -0.9%	BB U.S. Agg -0.5%	BB U.S. Agg -1.2%	MSCI EM -2.5%	MSCI EM -7.2%	Global ex-U.S. fixed income -7.1%	Global ex-U.S. fixed income -7.9%	Russell 2000 -16.9%	Russell 2000 -16.9%	Russell 2000 -25.2%	Global ex-U.S. fixed income -18.5%	MSCI EM -21.8%	MSCI ACWI ex-U.S. -25.2%	Real Estate -24.7%	MSCI EM -17.4%	Russell 2000 -20.4%	Real Estate -12.6%	MSCI EM -15.3%	Russell 2000 -11.6%	MSCI EM -6.5%	MSCI EM -8.5%	Global ex-U.S. fixed income -1.8%
BB U.S. Agg -0.7%	BB U.S. Agg -0.1%	Global ex-U.S. fixed income -1.2%	Global ex-U.S. fixed income -2.0%	Global ex-U.S. fixed income -5.0%	Global ex-U.S. fixed income -7.0%	Global ex-U.S. fixed income -7.9%	MSCI EM -10.7%	MSCI EM -11.4%	MSCI EM -18.3%	MSCI EM -19.8%	MSCI EM -25.3%	MSCI EM -20.1%	Global ex-U.S. fixed income -22.0%	MSCI EM -28.1%	MSCI EM -31.0%	Global ex-U.S. fixed income -19.8%	Real Estate -23.6%	Global ex-U.S. fixed income -14.2%	Global ex-U.S. fixed income -16.7%	Real Estate -20.3%	Real Estate -14.3%	Real Estate -14.8%	Real Estate -3.9%

## Recent data show divergent U.S. private job creation

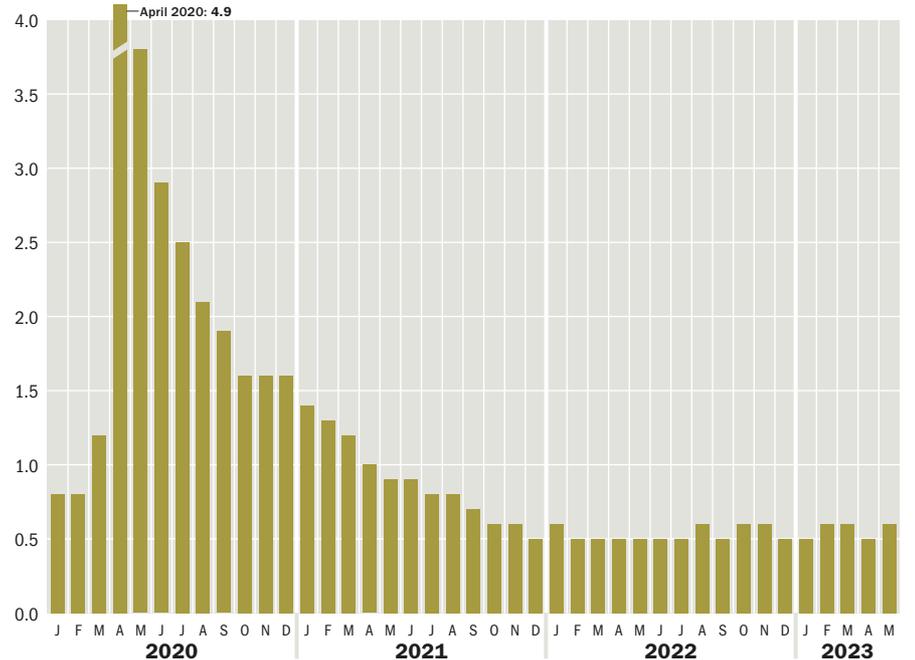
ADP's change in private-sector jobs (thousands)



DOL change in total employment (thousands)



Unemployed people per job opening



Sources: P&J Research Center; NISA Investment Advisors; Bloomberg LP; ADP Research Institute; U.S. Department of Labor's Bureau of Labor Statistics

## HIRINGS

■ **Air Products and Chemicals Inc.**, Allentown, Pa., added the Snyder Small Mid Cap Fund to the investment options lineup of its 401(k) plan during 2022, according to a comparison of its 11-K filing with the SEC and last year's filing. As of Dec. 31, **Snyder Capital Management** fund had \$158 million in assets in the plan, according to the new 11-K filing.

The comparison also shows the company removed three other investment options from the plan lineup during 2022: Dodge & Cox Balanced Fund, FIAM Small Capitalization Core Commingled Fund and the Principal MidCap Fund.

As of Dec. 31, 2021, the funds had \$137 million, \$134 million and \$85 million, respectively, in plan assets.

As of Dec. 31, the Air Products and Chemicals Inc. Retirement Savings Plan had \$2.4 billion in assets.

■ **Ameriprise Financial Inc.**,

Minneapolis, added the **GQG Partners** International Equity CIT to the investment options lineup of its 401(k) plan in 2022, according to a comparison of its June 22 11-K filing and last year's filing.

As of Dec. 31, the CIT had \$106 million in assets in the plan.

The comparison also shows the company removed the Ivy Investments International Core Equity CIT Fund from the lineup in 2022.

As of Dec. 31, the Ameriprise Financial 401(k) Plan had \$2.7 billion in assets.

■ **Ball Corp.**, Westminster, Colo., hired **Voya Financial** as record keeper of its 401(k) plan.

The company disclosed the change in record keeper from Vanguard Group in its June 20 11-K filing with the SEC. The change was effective Aug. 31, 2022.

As of Dec. 31, the Ball Corp. 401(k) and Employee Stock Ownership Plan had \$2.5 billion in assets.

■ **Baltimore City Employees' Retirement System** committed \$30 million to **GenNx360 Capital Partners** IV.

The \$2 billion pension fund's board approved the commitment to the buyout fund at its May 18 meeting, recently released meeting minutes show.

■ **CBRE Group Inc.**, Dallas, added the **Putnam** Large Cap Value Trust to the investment options lineup of its 401(k) plan in 2022, according to a comparison of its June 22 11-K filing with the SEC and last year's filing.

As of Dec. 31, the Putnam CIT had \$106 million in assets in the plan, according to the new 11-K filing.

The comparison also shows the company removed the Macquarie Large-Cap Value Trust from the lineup in 2022.

As of Dec. 31, the CBRE 401(k) Plan had \$3 billion in assets.

■ **Chicago Public School Teachers' Pension & Retirement Fund** committed \$10 million to Estancia Capital Partners Fund III.

The \$11.7 billion pension fund's board approved the commitment to the lower-middle-market buyout fund managed by **Estancia Capital Management** at its June 15 meeting, said CIO Fernando Vinzons in an email.

■ **Cincinnati Retirement System** hired **Reams Asset Management** to run between \$125 million and \$130 million in a new active domestic core-plus fixed-income portfolio.

The \$2.2 billion pension fund's board approved the hiring at its June 8 meeting, recently released meeting minutes showed.

The hiring was the result of a search the pension fund conducted after the board at its Feb. 2 meeting approved an increase in the target allocation to core-plus fixed income to 11.5% from 6%.

■ **Colorado Fire & Police Pension Association**, Denver, hired **Adrian Lee & Partners** as currency overlay manager and disclosed two new venture capital fund commitments totaling \$20 million.

The \$6.4 billion pension fund's investment staff disclosed the actions in materials for the fund's June 14-16 board meeting.

Adrian Lee & Partners will oversee about 40% of the \$400 million currency hedging program, while existing manager Wellington Management will oversee about 60%, said R. Scott Simon, chief investment officer.

Separately, staff

approved commitments of \$10 million each to **Alta Partners** NextGen Fund IV, a venture capital fund targeting early-stage investments in life sciences and digital health technology and technology-enabled health-care services, and venture capital fund **Foundation Capital** XI.

■ **Cushon Master Trust**, Croydon, England, a U.K. multiemployer defined contribution plan, added the **Global Total Return Credit** fund, managed by **Ninety One**, to the plan's default option, a spokeswoman confirmed.

The allocation at the strategy level is 3.2%, which corresponds to 32% of Cushon's credit exposure, confirmed Leonard Stimpfle, head of investment.

Cushon has £1.8 billion (\$2.3 billion) in assets.

The strategy, which incorporates sustainable factors, invests across a broad range of credit markets.

■ **Dallas-Fort Worth International Airport Board** approved two new alternatives fund commitments totaling \$15 million for its \$943 million pension fund.

The airport's board approved a commitment of \$7.5 million each to **Ares** Global Multi-Asset Credit Fund, an opportunistic credit fund, and **Torchlight** Debt Opportunity Fund VIII, a real estate debt fund, at its June 8 meeting, spokesman Brian A. Brooks said in an email.

■ **Essential Utilities Inc.**, Bryn Mawr, Pa., hired **Fidelity Investments** as record keeper of its 401(k) plan, according to a June 21 11-K filing with the SEC.

Fidelity replaced T. Rowe Price Group, effective July 2022. Essential Utilities spokesman Nicholas Paradise said in an email the change was made to consolidate from multiple firms to a single record keeper.

As of Dec. 31, the Essential Utilities Inc. 401(k) Plan had \$503 million in assets.

■ **Flowers Foods Inc.**, Thomasville, Ga., added the **Dodge & Cox** Income Fund as an investment option in its

## CHEVRON TAPS BLACKROCK FOR 401(K)

Chevron Corp., San Ramon, Calif., hired **BlackRock** as the new target-date fund and index fund manager for its 401(k) plan to manage up to \$8 billion as many states are claiming the money manager is boycotting energy companies.

The oil company's 401(k) plan committee approved making "notable changes" to the plan's investment options lineup in November, according to its June 23 11-K filing with the SEC.

Those included "transitioning all target date and most index funds from Vanguard to BlackRock," which were all effective May 31, according to the 11-K filing.

Chevron spokesman Randy Stuart said in an email that the company periodically reviews the plan "to ensure it continues to meet financial goals in retirement. The announced changes are a result of a recent review focused on the Plan's investment options, fund performance, investment glide path and fees. The plan will continue to offer a diverse set of investment options for participants to create portfolios that align with their personal goals and risk tolerance."

The hiring of BlackRock by a prominent oil company to manage up to \$8 billion in its 401(k) plan assets is notable in an environment in which states including Kentucky, Oklahoma and Texas have claimed the world's largest money manager is boycotting energy companies such as Chevron.

As of Dec. 31, the Chevron Employee Savings Investment Plan had \$18.9 billion in assets.

401(k) plan in 2022, according to a comparison of its June 21 11-K filing and last year's filing.

As of Dec. 31, the Dodge & Cox Income Fund had \$48 million in assets in the plan, according to the new 11-K filing.

The comparison also shows the plan removed the **Western Asset** Core Plus Bond Fund from the investment options lineup in 2022.

As of Dec. 31, the **Flowers Foods** Inc. 401(k) Retirement Savings Plan had \$726 million in assets.

■ **Fort Lauderdale (Fla.) Police & Firefighters' Retirement System** hired **Westfield Capital Management** to run about \$22 million in active domestic small-cap growth equities.

The \$1.1 billion pension fund's board approved the hiring at its meeting July 12, spokesman Fred Nesbitt said in an email.

Funding comes from the termination of **Eagle Asset Management**, which ran a similar portfolio.

■ **Franklin Regional Retirement System**, Greenfield, Mass., hired **Next Century Growth Investors** to manage about \$8 million in active domestic large-cap growth equities.

The \$178 million pension fund's board approved the hiring at its May 31 meeting.

■ **Houston Firefighters' Relief and Retirement Fund** committed up to \$60 million to **Coller** International Partners IX-A.

The \$5 billion pension fund's investment committee approved the commitment to the secondary private equity fund at its May 16 meeting, recently released meeting minutes showed.

■ **Howard County Retirement Plans**, Ellicott City, Md., committed \$10 million to **MPE Partners** IV.

The joint committee for the Howard County Retirement Plan and the Howard County Police and Fire Employees' Retirement Plan approved the commitment to the lower-middle-market buyout fund at its May 17 meeting, recently released meeting minutes show.

The two plans have a combined \$1.4 billion in assets.

■ **Indiana Public Retirement System**, Indianapolis, committed a total of \$592 million to seven managers, according to the \$38.5 billion pension fund's most recent report.

The largest allocation was an additional commitment of \$125 million to **Sixth Street** Tao, a fund managed by **Sixth Street Partners** that focuses on growth and direct lending opportunities. The pension fund initially committed \$25 million to Sixth Street TAO.

The pension fund also committed \$118 million to **CVC Capital Partners** IX, which is managed by **CVC Partners** and seeks to make control equity investments in Western European companies; \$100 million to **New Mountain Partners** VII, which makes control-equity investments in high quality businesses in cyclical defensive growth niche sectors; and \$80 million to **BlackFin** Financial Services Fund IV, which seeks equity investments in scalable and proven asset-light financial service businesses based in Europe.

INPRS also committed \$19 million to **Project Serrano**, an equity co-investment that is managed alongside **Francisco Partners**.

In real assets, the pension committed \$100 million to **Ambrose** Fund IV, an opportunistic equity industrial fund, managed by **Ambrose Property Group**, and \$50 million to **Affordable Housing** Fund, managed by **The Related Cos.**

■ **International Business Machines Corp.**, Armonk, N.Y., added three index fund separate accounts managed by **State Street Global Advisors** to the investment options lineup of its 401(k) plan in 2022.

The SSGA separate accounts replaced three commingled funds managed by Vanguard Group, according to a comparison of the company's June 16 11-K filing and last year's filing.

As of Dec. 31, SSGA's Total Stock Market index separate account, European Stock index separate

account and Pacific Stock index separate account had \$6.2 billion, \$343 million and \$261 million, respectively, in assets in the plan, according to the new 11-K filing.

The comparison between this year's and last year's filing show the plan removed the Vanguard Total Stock Market Index Trust, Vanguard European Stock Index Trust and Vanguard Pacific Stock Index Trust, which previously had \$7.9 billion, \$447 million and \$327 million, respectively, in assets in the plan as of Dec. 31, 2021.

As of Dec. 31, the IBM 401(k) Plus Plan had \$52.4 billion in assets.

■ **Kentucky Teachers' Retirement System**, Frankfort, disclosed two new commitments totaling \$100 million,

The \$23.6 billion pension fund disclosed commitments of \$50 million each to **AlpInvest** Secondaries VIII, a secondary private equity fund, and **AG Net Lease Realty V**, a real estate fund managed by **Angelo Gordon & Co.**, said Robert B. "Beau" Barnes, deputy executive secretary and general counsel, in an email.

■ **Kommunal Landspensjonsskassen**, Oslo, committed \$150 million to solar power fund **NextPower** V ESG, managed by renewable energy firm **NextEnergy Capital**, a spokesman confirmed.

KLP has 948.1 billion Norwegian kroner (\$87.5 billion) in assets.

The fund invests across Europe, North America and Chile in solar photovoltaic and energy storage infrastructure assets while contributing to the decarbonization of the power generation sector, reducing electricity prices and increasing energy security.

■ **LGPS Central**, Wolverhampton, England, committed \$225 million to middle-market senior loan fund **Churchill** Fund V, managed by **Churchill Asset Management**.

The fund provides senior and unitranche loans to companies in non-cyclical industries in the core U.S. middle market.

Churchill integrates ESG considerations into its underwriting and portfolio management processes, LGPS said in the release.

LGPS Central is a pool of U.K. local authority pension funds, which have £55 billion (\$70 billion) in combined assets.

■ **Los Angeles Fire & Police Pensions** committed up to \$60 million in two alternative investment funds, according to a report of closed session actions taken by the board of the \$29.3 billion pension fund.

Pension fund officials committed up to \$50 million in **MPE Partners** IV, a lower-middle-market buyout fund, and up to \$10 million to venture capital fund **Renegade Partners** II.

LAFFP also approved the sale of **Twin Creeks Village**, a property held in a separate account managed by **AEW Capital Management**, for a minimum of \$44 million.

■ **Louisiana Teachers' Retirement System**, Baton Rouge, disclosed four new commitments totaling up to \$325 million, spokeswoman Michelle Millhollon said in an email.

The \$24.5 billion pension fund committed up to \$125 million to buyout fund **Warburg Pincus** Capital

## HAVE SOME NEWS?

Please submit news of changes to John Fuller, news editor, at [john.fuller@pionline.com](mailto:john.fuller@pionline.com).

## HIRINGS

Solutions Founders Fund, up to \$75 million each to value-added real estate fund **Bain Capital Real Estate Fund III** and **H.I.G. Europe Realty Partners III**, a value-added real estate fund, and up to \$50 million to **Castlelake Aviation V Stable Yield**, a private equity fund that makes opportunistic investments in leased aircraft that are at the beginning to middle of their operating life.

■ **Massachusetts Water Resource Authority Retirement System**, Chelsea, invested about \$12 million in LMCG Serenitas Credit Gamma Fund.

The \$639 million pension fund's board approved the investment in the opportunistic credit hedge fund managed by **LMCG Investments** at its June 29 meeting, said Carolyn Russo, executive director, in an email.

■ **Mattel Inc.**, El Segundo, Calif., hired **Fidelity Investments** as record keeper of its 401(k) plan.

The toymaker hired the firm in 2023 to replace Alight Solutions, according to its June 22 11-K filing with the SEC.

As of Dec. 31, the Mattel Inc. Personal Investment Plan had \$1 billion in assets, according to the 11-K filing.

■ **Michigan Department of Treasury**, Bureau of Investments, disclosed \$421 million in private equity, real estate and absolute-return commitments completed in the first quarter on behalf of the \$95.3 billion Michigan Retirement Systems, East Lansing.

In real estate, the bureau committed \$326 million to SMP Data Center, a separately managed account, focused exclusively on investments in the U.S. data center sector and managed by **Principal Real Estate Investors**, according to materials for the state's investment board meeting on June 29.

In private equity, the bureau committed a total of \$75 million to three venture capital funds managed by **Khosla Ventures**: \$50 million to **Khosla Ventures VIII**; \$12.5 million to **Khosla Ventures Opportunity II**; and \$12.5 million to **Khosla Ventures Seed F**.

And in absolute return, Michigan committed \$20 million to **SJC Direct Lending Fund IV 10 Year-J**, a dedicated co-investment vehicle managed by **Czech Asset Management** for the **SJC Direct Lending Fund IV** strategy that will invest in a senior credit opportunity, according to board documents.

■ **New Mexico State Investment Council**, Santa Fe, committed up to \$1.1 billion to alternative investment strategies at its meeting June 27, spokesman Charles Wollmann said. The council oversees \$43.1 billion in endowments.

The council committed up to \$300 million each to **Atalaya Asset Income Fund Evergreen**, a private credit fund of one, and **HPS Specialty Loan Fund Strategy**, a direct lending fund of one. New Mexico SIC also committed up to \$150 million each to **LS Power Equity Partners V**, a conventional, renewable and distributed energy infrastructure fund; opportunistic value-added real estate fund **Bain Capital Real Estate III**; and **Blackstone Real Estate Partners Europe VII**, a European opportunistic real estate fund.

The council also committed up to \$50 million to **Sweetwater Private Equity III**, a non-traditional secondar-

ies private equity market fund managed by **Sweetwater Capital Partners** that invests in companies rather than in limited partnership interests of commingled funds.

■ **New Orleans Sewerage & Water Board** hired **Mellon Investments** to manage \$7 million each in passive emerging markets equities and passive international small-cap equities for its \$218 million defined benefit plan.

Funding comes from a reduction in an active international large-cap core equity portfolio managed by **EARNEST Partners**, leaving it with about \$38 million.

■ **nVent Management Co.**, St. Louis Park, Minn., added a target-date fund series managed by **Vanguard Group** to the investment options lineup of its 401(k) plan, according to a comparison of its June 27 11-K filing and last year's filing.

As of Dec. 31, the target-date funds had a total of \$201 million in assets in the plan. The comparison also showed the company removed a similar target-date fund series managed by J.P. Morgan Asset Management from the lineup in 2022.

As of Dec. 31, the nVent Management Co. Retirement Savings and Investment Plan had \$475 million in assets.

■ **Ohio School Employees Retirement System**, Columbus, committed \$75 million to **KKR Ascendant**.

The \$17.6 billion pension fund's board approved the commitment to the buyout fund at its June 15 meeting, according to board meeting highlights emailed by spokesman Tim Barbour.

■ **Pentair Inc.**, Golden Valley, Minn., added a target-date fund series managed by **Vanguard Group** to the investment options lineup of its 401(k) plan in 2022, according to a comparison of its June 26 11-K filing and last year's filing.

As of Dec. 31, the 12 target-date funds had a total of \$288 million in assets in the plan.

The comparison also shows the company removed a similar series of target-date funds managed by J.P. Morgan Asset Management from the lineup in 2022.

As of Dec. 31, the Pentair Inc. Retirement Savings and Stock Incentive Plan had \$694 million in assets.

■ **Perrigo Co.**, Allegan, Mich., added a target-date fund series managed by **Vanguard Group** and changed the global fixed-income fund offered in the investment options lineup of its 401(k) plan.

The company added the series of 12 Vanguard target-date fund series and the American Funds Capital World Bond Fund, managed by **Capital Group**, in 2022, according to a comparison of its June 20 11-K filing and last year's filing.

The plan did not list any target-date funds in the prior 11-K filing. As of Dec. 31, the Vanguard target-date funds had a total of \$343 million in assets in the plan. The American Fund had \$3 million in assets in the plan as of that date.

The comparison of this year's and last year's filing also shows the company in 2022 removed the **PIMCO Global Bond Opportunities Fund**

## NEW YORK STATE COMMON ALLOCATES \$1.8 BILLION

New York State Common Retirement Fund, Albany, disclosed about \$1.8 billion in manager hires and alternative fund commitments completed in May, according to a newly released transaction report on its website.

Within its credit asset class, the \$248.5 million pension fund hired **Golub Capital** to run two separate credit accounts totaling \$500 million: \$300 million in **Golub Sapphire Fund** and \$200 million in **Golub Emerald Fund**, both targeting opportunistic credit opportunities.

Within real assets, the pension fund committed \$450 million to **EQT Infrastructure VI** and €250 million (\$272 million) to **Antin Infrastructure Partners V**, an infrastructure fund targeting energy

(Unhedged) from the lineup.

As of Dec. 31, the Perrigo Co. Profit-Sharing and Investment Plan had \$820 million in assets.

■ **Rhode Island State Investment Commission**, Providence, approved two new commitments totaling up to \$35 million for the \$10.3 billion **Rhode Island Employees' Retirement System**.

Specifically, the commission approved a commitment of up to \$15 million to **TCG Crossover Fund II**, a late-stage life science strategy, operating primarily in the U.S. and Europe, according to recently released minutes of its May 24 meeting.

At the recent meeting, the commission also approved a non-core real estate commitment of up to \$20 million to **Berkeley Partners Value Industrial Fund VI**, a sector specialist exclusively investing in small and medium-size light industrial assets in the U.S.

■ **Rolls-Royce Retirement Savings Trust**, Derby, England hired **BlackRock** as its first provider of custom target-date funds for its £840 million (\$1.1 billion) default option.

The £1 billion retirement plan has 34,000 participants in its default fund. **BlackRock** will provide target-date funds in both the accumulation and decumulation phases of the default fund.

■ **San Antonio Fire & Police Pension Fund** committed \$20 million to **Merit Energy Partners L**.

The \$3.7 billion pension fund's board approved the commitment to the oil and gas fund at its May 30 meeting, recently released meeting minutes showed.

■ **SAP America Inc.**, Newtown Square, Pa., added the **BlackRock Mid-Cap Growth Equity Trust** to the investment options lineup of its 401(k) plan in 2022, according to a comparison of its June 23 11-K filing and last year's filing.

As of Dec. 31, the **BlackRock CIT** had \$29 million in assets in the plan, according to the new filing.

The comparison also shows the plan removed a similar investment option, the **Hartford MidCap HLS Fund**, a mutual fund, from the lineup in 2022.

As of Dec. 31, the **SAP America Inc. 401(k) Plan** had \$6.4 billion in assets.

■ **Spokane (Wash.) Employees' Retirement System** hired **Loomis Sayles & Co.** to manage \$16 million in active domestic core-plus fixed income and **BlackRock** to run \$6 million in an

and environment, telecommunications, transportation and social sectors.

Within real estate, the pension fund committed \$300 million to **Waterton Residential Property Venture XV**, a value-added real estate fund.

Within private equity, the pension fund committed \$150 million and \$50 million, respectively, to middle-market buyout fund **TowerBrook Investors VI** and **TowerBrook Empire Opportunities**, which co-invests alongside the former fund; \$25 million to **Insight Vision Capital II**, a venture capital fund managed by **Insight Partners**; and \$15 million to venture capital fund **Armory Square Ventures III**.

Finally, within public equity, the pension fund terminated **Morgan Stanley Investment Management** from a \$573 million active emerging markets equity portfolio. Funding was reallocated to cash, and the report did not provide a reason for the termination.

active high-yield fixed-income portfolio.

The \$322 million pension fund's board approved the hirings at its June 7 meeting, recently released meetings showed.

■ **Tennessee Consolidated Retirement System**, Nashville, approved three new private equity commitments totaling \$190 million.

The \$63.6 billion pension fund's investment committee approved commitments of \$120 million to buyout fund **FS Equity Partners IX** and \$60 million and \$10 million, respectively, to oil and gas funds **Quantum Energy Partners VIII** and **Quantum Energy Partners VIII Co-Investment Fund** at its June 23 meeting, said Shelli King, spokeswoman for state Treasurer David H. Lillard Jr., who oversees the pension fund, in an email.

■ **Texas County & District Retirement System**, Austin, committed \$290 million to two alternative funds, according to a report on the system's website.

The \$42.7 billion pension fund committed \$250 million to **Silver Point Distressed Opportunity Institutional Partners II**, which will seek investment in distressed corporate debt in North America. It also committed \$40 million to **KPS Special Situations Mid-Cap Fund II**, which is managed by **KPS Capital Partners** and invests in corporate debt in North America, the report said.

■ **Texas Teacher Retirement System**, Austin, completed real estate and other alternative fund commitments totaling \$499 million in June, spokesman Rob Maxwell said in an email.

The \$179.4 billion pension fund committed \$150 million each to **Macquarie Infrastructure Partners VI** and opportunistic real estate fund **Blackstone Real Estate Partners (Cayman) VII**; \$100 million to energy fund **Formentera Partners Fund II**; and \$99 million to **EnCap Agamar**, an opportunistic fund.

■ **Travelers Cos. Inc.**, St. Paul, Minn., added the **American Funds' The Bond Fund of America** to the investment options lineup of its 401(k) plan.

The insurer added the active domestic core fixed income fund managed by **Capital Group** to the lineup during 2022, according to a comparison of its June 20 11-K filing with the SEC and last year's filing.

As of Dec. 31, the fund had \$80 million in assets in the plan, according to the new 11-K filing.

The comparison also shows the plan removed the **PIMCO Total Return Fund** from the investment options lineup in 2022.

As of Dec. 31, the **Travelers 401(k) Savings Plan** had \$8 billion in assets.

■ **Ventura County (Calif.) Employees' Retirement Association** approved two new private credit commitments totaling \$50 million.

The \$7.3 billion pension fund's board at its meeting on June 26 approved commitments of \$25 million each to **Crayhill Principal Strategies Fund III** and **Crescent Cove Capital IV**, said Dan Gallagher, chief investment officer, in an email.

■ **Wales Pension Partnership**, Carmarthen, hired **Russell Investments** to manage the pension fund's the £1.2 billion (\$1.5 billion) multimanager sustainable active equity allocation, according to a news release on its website.

Russell has developed the new sustainable global active equity solution for WPP with newly selected strategies for this subfund from underlying managers, a Russell spokeswoman said.

Russell hired **Sparinvest, Mirova, Neuberger Berman Group, Wellington Management and Artemis Fund Managers** as subadvisers for the strategy.

■ **Zoetis Inc.**, Parsippany, N.J., added four new investment options to its 401(k) plan lineup, according to a comparison of the animal health-care company's June 26 11-K filing and last year's filing.

The company added the **Columbia Trust Dividend Income Fund Institutional 300**, an active domestic large-cap value collective investment trust managed by **Columbia Threadneedle Investments**; **Vanguard Explorer Fund**, an active domestic small-cap growth equity fund; **BlackRock Mid Cap Growth Equity Fund**; and the **American EuroPacific Growth Fund**, an active international equity fund managed by **Capital Group**.

As of Dec. 31, the new investment options had \$55 million, \$44 million, \$40 million and \$14 million, respectively, in assets in the plan, according to the new 11-K filing.

The comparison also shows that during 2022 the company removed the **Pioneer Select Mid Cap Growth Fund**, **TRP Integrated U.S. Small-Cap Growth Equity Fund**, **Invesco Diversified Dividend Fund** and the **Invesco Developing Markets Fund**.

As of Dec. 31, the **Zoetis Savings Plan** had \$1.5 billion in assets.

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### Russell 1000 Growth ex Tobacco Investment Manager Search

The Oklahoma Tobacco Settlement Endowment Trust ("TSET") is seeking an investment manager to manage its current portfolio totaling \$200mm using a full replication strategy benchmarked to the Russell 1000 Growth ex Tobacco Index. TSET has a preference for separate accounts though CITs may be evaluated. Proposals are due by 4:00 pm on August 16, 2023. Minimum qualifications, questionnaire and further instructions are available on [NEPC.com](http://NEPC.com).

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# Student

CONTINUED FROM PAGE 2

Fidelity Investments. While student loan payments will resume in October, interest on such loans will resume beginning Sept. 1.

This means “folks will have to re-adjust their finances,” Ms. Hahnel added, which could impact retirement savings.

“The biggest thing that (plan sponsors) can do is think about the burden that their employees are facing and (think) if they can offer any benefits within this space,” she said.

One avenue is through the SECURE 2.0 legislation.

In December, Congress passed SECURE 2.0, a retirement security package made up of more than 90 provisions aimed at bolstering retirement security. One of those provisions allows employers to make matching contributions to an employee’s 401(k) plan, 403(b) plan or SIMPLE IRA based on qualified student loan payments, starting on Jan. 1, 2024.

The provision is a way of “really helping (borrowers) continue to save for retirement while they’re dealing with the financial pressures of paying off student debt today,” Ms. Hahnel said.

Matching student loan payments with retirement plan contributions isn’t the only way to support employees, sources said.

While some retirement plan sponsors have taken a more direct approach to relieve student loan debt, others are simply offering their employees more guidance and education on how to deal with stu-

dent loans, which industry experts say is helpful as well.

“We’re seeing plan sponsors partner with vendors for guidance, for education (and) for tools,” said Sara Vipond, senior associate on the U.S. defined contribution research team at Mercer’s Minneapolis office.

Whether it’s starting a new benefit program or just offering more guidance to employees, taking any kind of initiative related to student debt is a good way to get employee feedback, Ms. Hahnel said.

## Head start

Before student loan payments resume, some plan sponsors have a head start with programs already in place to help borrowers.

Prior to Congress passing SECURE 2.0, Abbott Laboratories became the first company to launch a student loan matching program in 2018, upon receiving a private-letter ruling from the IRS. Under its Freedom 2 Save program, employees who dedicate 2% of their annual salary toward student loan repayment will receive a 401(k) contribution worth 5% of their salary, or the equivalent of the company match.

“I think for us it was very clear that employees that were dealing with student loan debt were facing some challenges in terms of saving for retirement,” which prompted a response on how to manage that issue and address it, said Diego Martinez, Chicago-based divisional vice president for benefits and wellness at Abbott Laboratories.

The key point of the program is that employees don’t have to contribute to their 401(k) accounts in order to save for retirement, he noted.

“We — as an employer — we can play a critical role in helping employees tackle their student loans,” Mr. Martinez said. While more than 1,300 employees are currently enrolled in Freedom 2 Save, Mr. Martinez expects Abbott employees’ interest in the program to increase given the recent Supreme Court ruling.

Employees from other companies will likely be interested in such programs as well, he added.

“SECURE 2.0 makes it a lot simpler than what we had to do, and I think that that’s great.”

In a different approach, Unum Group launched a program in 2020 that allows employees to trade in unused paid time off for student loan relief.

Starting at a minimum of eight hours and a maximum of 40, employees can take their unused PTO at the end of each calendar year and convert it to student loan repayment for themselves, a spouse, or a child, as long as they are the signatory or co-signer of the loan.

Carl D. Gagnon, associate vice president of global financial well-being and retirement programs at Unum, said the company knew that student loan payments were an issue but decided not to tie its program to the 401(k) match because it felt doing so could have a long-term impact on retirement savings.

“We have a very competitive PTO program in the industry with Unum,” said Mr. Gagnon, who’s based in Portland, Maine. “So taking that 40 hours and maybe repurpos-

ing it, at its hourly value, to help pay off additional student debt was a good way to go.”

“But we applaud what Abbott does,” he added. “We applaud the SECURE 2.0 features.”

## SECURE 2.0 paves the way

With the passage of SECURE 2.0, employers now have explicit permission to match student loan payments with retirement contributions. And according to Fidelity’s Ms. Hahnel, employers are ready to jump in once the provision takes effect in 2024.

“We’re seeing a lot of employers really leaning in and making sure that their employees can take advantage of it Day One,” she said.

Allowing employers to make matching contributions for employees’ student loan payments “could help employees who are paying off their student loans to start sav-

ing for retirement sooner or increasing their contributions,” Matt Brancato, Devon, Pennsylvania-based chief client officer in Vanguard Group Inc.’s institutional division, said in an email.

Some 72% of employers currently offer or plan to offer student loan debt assistance or tuition reimbursement, according to EBRI’s 2022 Financial Wellbeing Employer Survey, conducted in 2022.

And the return of student loan payments is sure to bump up program participation on the employee side, sources agreed.

“I think there’s going to be a big

kick up coming up in terms of employees taking advantage of any student loan program or rebate, or reimbursement, or payment system that employers have in 2024, or as they go forward,” Mr. Gagnon said.

However, he noted there may be other SECURE 2.0 provisions that require plan sponsors’ more immediate attention and could take away from their work toward student debt relief. Specifically, he said the provision that subjects all catch-up contributions to Roth tax treatment may be a challenge for some employers, third-party administrators and payroll systems to implement by 2024.

Without any final guidance on how the student matching provision will be administered, “it’s a little bit more of a wait and see,” said Mercer’s Ms. Vipond, as she doesn’t expect many plan sponsors to have programs ready by Jan. 1, 2024.

For workers below age 45, employer match contributions paying down student debt would be the most attractive feature in a defined contribution plan, according to Mercer’s 2022 Inside Employees Minds’ Study.

“I think that this is going to be something that people are going to be excited (about) and people are going to be requesting, as they have to kind of reconsider how they allocate their monthly budget,” Abbott’s Mr. Martinez said.

“We know that a program like this helps recruitment, helps retention and ... I think it gives employees a great message (that) we care about you, you made a huge effort to get your education and this is a way that the company can support you to kind of pay that back,” he added. ■



**ENGAGE:** Amanda Hahnel said sponsors need to remember the burden employees have.

# Japan

CONTINUED FROM PAGE 2

ing firm to its five-year capital markets assumption that Japanese equities will return 9.2% on an annualized basis, which is on a par with its forecast for overall developed markets equities.

But unlike in other developed markets, investors have welcomed Japan’s accommodative monetary policy as the country has struggled with economic growth over the past three decades, with GDP growth and inflation often dipping into negative territory.

The Bank of Japan is the last central bank to hold onto unconventional monetary policy of negative interest rates, and T. Rowe Price executives are not expecting them to change their interest rate policy, said Thomas Poullaouec, head of multiasset solutions, Asia-Pacific, in Singapore.

The BOJ kept its benchmark interest rate at -0.1% even as inflation reached a 42-year high of 4.3% in January, although it did relax its yield curve control policy by widening the tolerance band of its 10-year government bond yield. The inflation rate moderated to 3.2% in May.

In addition, the earnings growth potential driven by a corporate governance focus and “the use of cash by companies are really the key pillars of our overweight,” Mr. Poullaouec said.

## Better disclosures

The Tokyo Stock Exchange has called for better disclosures and shareholder returns from compa-

nies, particularly those trading below book value, prompting an increase in cash spending on share buybacks and business growth.

“There’s really been an improvement in dividend payout, which is now higher than in the U.S., and we have also seen a high level of share buybacks compared to other markets,” Mr. Poullaouec added. Dividend payouts by Japanese companies are expected to reach a record high of ¥15.2 trillion by March 2024, ¥100 billion more than the year prior, according to a Nikkei Inc. analysis.

“The recent Tokyo Stock Exchange initiative is a game changer that builds on prior corporate governance reforms and focuses on improving underlying corporate profitability,” said Oliver Lee, Singapore-based client portfolio manager at Eastspring Investments, which has \$221 billion in AUM.

“And with higher levels of inflation and corresponding wage growth coming through, Japan also has the best chance in a generation to move out of its deflationary mindset,” he said.

The average monthly wage for full-time workers in Japan grew 1.4% in 2022 to ¥311,800, the biggest increase since 1976. The wage gap between men and women narrowed in 2022, as average wages for women increased by 2.1%, while that of men rose by 1.4%. However, women’s wages are still on average 24.3% lower than men’s.

“You’re going to suddenly have people with more money than they are used to, and they will have to spend because the inflationary pressures are pushing prices higher,” said Martin Schulz, senior vice president, senior portfolio manager and head of the international equity group at Federated Hermes.

The Japanese government has also pushed to have more women and the elderly in employment, he added.

Structural changes in the labor market, including wage growth, are among the reasons that Cleveland-based Mr. Schulz believes the recent surge in Japanese equities marks the start of a long-term trend.

Japanese assets currently make up 18% of his portfolio, up from 16% six months ago, and notably higher than the MSCI ACWI ex-U.S. bench-

mark set at 14%. He admits that there have been moments over the past 25 years where foreign investors have gotten hopeful, then disappointed, about the resurgence of Japanese equities, but he believes this time is different.

“Could this be a short-term blip like we’ve seen in the past? Yes, for sure,” he said. “But we do see signs at play that because this has gone on for so long, and (there are) factors (such as) external shocks from an inflationary side, that we do think this has some legs.”

“Unlike past periods, you do have a fairly committed Bank of

Japan,” he added.

Federated Hermes has \$701 billion in total managed assets.

## Value play

One senior executive at a Japanese asset manager, who spoke on condition of anonymity, is less optimistic, however.

A weak Japanese yen and low interest rates have made fixed assets such as property appealing to institutional investors, he said. And Japanese equity has received attention after stock prices of the five Japanese stocks owned by Warren Buffett — Itochu Corp., Marubeni Corp., Mitsubishi Corp., Mitsui & Co., and Sumitomo Corp. Group — more than doubled since Berkshire Hathaway’s disclosure that he owned the assets in 2020.

However, some investors aren’t sure which stocks to buy, so they buy exchange-traded funds, which increases flows. “So it’s more of a short-term or value play instead of a long-term play,” he said.

Japan is also reaping the rewards of a post-COVID-19 recovery, having reopened its borders only in October, he added.

That the reopening trade in Japan — in particular due to the dropping of its indoor face-mask mandate in March — is also the reason for James A. Lydotes, Boston-based deputy CIO and head of equity income at Newton Investment Management, owning “zero names in Japan right now” in the firm’s global equity income strategy.

Mr. Lydotes was in Tokyo in March, right before the recommendation to wear face masks indoors was dropped, and “while I can see the benefits of a ‘reopening’ trade that is coming two years after it

came in other areas that had dropped mask mandates, Japan’s economy was not really shut down.” Restaurants were full, workers were returning to the office “at a pace which didn’t seem that different from what we see in the West.” Mr. Lydotes was surprised by how reopened the country already was.

“There will be some bumps with the additional feel of mask freedom, but I think we’ve already seen a good deal of the recovery that a lot of investors feel is still on the come-up,” he said.

With equities now trading at levels not seen since the end of the 1980s, “it’s hard to argue that a good deal of this enthusiasm is not already reflected in valuations,” Mr. Lydotes said. And long-term challenges remain for Japan, such as demographic issues. While he said the reopening trade “will likely mean a tailwind to corporate earnings for the balance of this year, 2024 will start with all of the same headwinds facing the economy prior to COVID.”

However, he added that there will remain “select opportunities ... because Japan does remain a technological center of excellence, but it’s tough in my estimation to make a very aggressive positive call on Japanese equities.”

However, owning no Japanese equities right now in the strategy “won’t be long term, it’s tactical, and we are looking — in fact, I recently met with an analyst where we discussed a potential new idea for the strategy in Japan. But as of right now, we have no weight there. We’ve owned Japanese names in the fund in the past, and own Japanese equities more broadly at the firm,” Mr. Lydotes added. ■



**GOING UP:** Martin Schulz believes the Japanese equities surge is the start of a long-term trend.

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# Gramercy

CONTINUED FROM PAGE 4

debt again when it hit around 16 to 17 cents on the dollar.

In the 1990s, the G-7 imposed severe haircuts on both Poland and Bulgaria's sovereign creditors, and “when we look at Ukraine, we don't predict it will happen, but we have to account for that possibility. Iraq (bonds) also got an 85% haircut, driven by politics. ... With that in mind, we wanted to make sure we underwrote the political scenarios that could lead to restructuring.”

The potential upside: “The closer we get to 15 cents, the more comfortable we get owning it.”

### Chinese developers

Gramercy has been selectively trading in and out of Chinese property developers, which were slammed by COVID-19 and a slowdown in GDP, but which the firm believes are too big to fail.

Overall, Mr. Koenigsberger said “I'm not a China bull.” However, Chinese developers such as Country Garden and Evergrande sold off so sharply that Gramercy began buying their debt in 2022.

“This is a very idiosyncratic. It's not a top down view on China. And again, one of the risks of China is it's hard to predict if sectors will be sanctioned.”

After visiting Asia and speaking with chief financial officers and trading desks, Gramercy found property developer bonds trading at values equivalent to under 10 cents on the dollar.

“Property is a substantial portion of China's GDP. So we identified five or six developers who might make it to the other side, when the bonds would be worth more. The mistake other investors made in China property was looking at liquidation values. All this stuff today trades at or on top of liquidation value. And yet none of them are in liquidation.”

He believes China's ruling party under President Xi Jinping won't allow major failures in the property

sector, since it represents one-third of the country's GDP.

“The chief financial officers are all talking about trial balloons for debt restructuring, which for us is just a classic emerging markets restructuring,” he said.

One bond issued by Country Garden was trading at 8 cents on the dollar, was still performing and paying a coupon. The bond went on to rise in price to 70 cents on the dollar. Gramercy bought and has since sold these bonds.

“We saw a huge pop, got out of most of it in the fourth quarter of last year, and now we're going back again,” he said.

Mr. Koenigsberger compares the Chinese property crisis to the U.S. mortgage crisis of 2008.

Based on the June Chinese inflation figures, he believes, “There will be more stimulus and more toward the property sector.” China's core inflation, which excludes food and energy, slowed to 0.4% from 0.6%. Producer prices fell 5.4% from a year earlier.

### Restructuring deals

Gramercy for years has negotiated or led emerging markets debt restructuring deals with governments such as Argentina. The firm structures complex deals that can take months to put together.

“We're known for that, especially special situations which we structure like call options and less like bonds,” he said.

Many hedge funds avoid lending to corporate borrowers in emerging markets, lacking the experience of analyzing creditworthiness. Gramercy lends money through platforms in many emerging markets, say, to suppliers to Mexican cement giant PEMEX, at 15% to 17% interest, using PEMEX guarantees as collateral.

“We end up with higher returns, less risk, while giving up a little li-

quidity,” he said.

The firm's funds also invest in litigation securities such as ICSID claims, issued by the World Bank's International Center for Settlement of Investment Disputes. In Puerto Rico, rather than buy sovereign debt, the firm funded litigation against insurers including AIG and MAPFRE of Spain for hurricane damage claims.

Through June, the multiasset strategy GMAP has returned 9.6%. In 2022, while the S&P fell 18%, and the J.P. Morgan EBMI Global Diversified Composite index lost 17.8%, GMAP fell 3%. Since inception as its own fund in June 2021, it has returned 7.6%, according to hedge fund databases.

**‘We look at ESG as being part of credit. Because if someone's a good ESG citizen then they're a better credit.’**

GRAMERCY FUNDS MANAGEMENT'S ROBERT KOENIGSBERGER

When it comes to ESG investing, Gramercy doesn't believe in divesting, but sees opportunities for greater improvement in emerging markets.

“Once you pull your capital, no one cares. But if you give someone money and ask for things, we've

proved our capital has a much bigger impact.”

The governance part of ESG has “always been an important part of what we do. We look at ESG as being part of credit. Because if someone's a good ESG citizen then they're a better credit.”

One example was a Turkish ready-mix cement manufacturer, for which Gramercy did a \$28 million rescue finance deal in 2018, lending the firm money at 18%.

“But we don't want to just get paid on the assets, but on the success of the business. We told them to get a Big 4 accounting firm, a CFO who speaks English, and get a certain percentage balance in your workforce between men and women,” all of which the company did. “We get good returns and drive good ESG outcomes.”

The Turkish company ultimately went public in an IPO. ■

# Oklahoma

CONTINUED FROM PAGE 2

while State Street advises a U.S. equity fund with about \$618 million, Mr. Fox said.

OPERS estimates that the cost of commissions, taxes and fees for the mandated divestment activity is \$9.7 million, with an additional \$391,000 for the divestment of funds in the Uniform Retirement System for Justices and Judges.

The cost reflects only “explicit

costs,” which OPERS says may be “reasonably accurately estimated.” The final total market value losses to the retirement system, however, are “potentially multiple times the estimate given,” OPERS noted in internal meeting documents Mr. Fox shared with *Pensions & Investments*.

The investment committee's recommendation to take the fiduciary exemption, however, was temporarily set aside. The 14-member board, which includes Mr. Russ and three appointees of Oklahoma Gov. Kevin Stitt, postponed any action on the recommendation because the restricted financial companies have 90 days to respond and attempt to be removed from the list, Mr. Fox said in an email.

The 13 firms were notified in writing in May by the pension funds with which they have business that they were blacklisted and that they had 90 days from the receipt of the letter to cease boycotting energy companies to avoid divestment.

In letters sent to BlackRock and State Street viewed by *P&I*, OPERS said that the letter was sent to give them “the opportunity to clarify their activities related to energy companies.”

Indeed, the pension funds and

their asset managers have been working with the treasurer's office to figure out why the 13 firms were put on the list, with asset managers arguing that they do not boycott energy companies.

“BlackRock is a leading investor in the Oklahoma energy sector,” a BlackRock spokesperson said in an email, adding that the company invests over \$15 billion in public energy companies based in Oklahoma and \$320 billion in public energy companies globally.

State Street, too, made a similar plea. “State Street does not discriminate against oil and gas companies, or any other industry sectors,” a State Street spokesperson said in an email.

Keith Brainard, research director for the National Association of State Retirement Administrators in Georgetown, Texas, said that BlackRock and State Street need to demonstrate that they don't belong on the list.

In BlackRock's case, it's a question of whether its “public statements will be enough to change the mind of the state treasurer,” he said.

The Oklahoma treasurer's office declined to comment on whether BlackRock and State Street had any chance of getting removed

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## Exchange-Traded Funds

# What's behind BlackRock's spot bitcoin ETF timing?

Surprise application sets off mad scramble among financial services firms

By CHEYENNE LIGON

BlackRock Inc.'s surprise application to offer a spot bitcoin exchange-traded fund — filed with federal regulators last month with little fanfare — has kicked off a mad scramble among institutional players to file their own applications for similar products before the U.S. Securities and Exchange Commission picks a winner.

In the weeks since BlackRock's application was filed with the SEC, several other financial services firms, including Fidelity Investments, WisdomTree, Valkyrie and Invesco, have resubmitted filings with regulators. At least one other firm — Cathie Wood's ARK Investment Management — already has a pending application for a spot bitcoin ETF.

All are jockeying to get the first spot bitcoin ETF approved by the SEC after a long line of rejections over the past two years — a prize that would come with serious first-mover advantage, giving crypto-curious institutional investors the first real opportunity to gain direct exposure to bitcoin.

Matt Hougan, chief investment officer of BitWise — which refiled its spot bitcoin ETF application a day after BlackRock — said first-mover advantage is a “big thing in all ETFs” but suggested that bitcoin investors may have a preference for specialist providers with “real-world crypto experience,” something that has also been seen in other niche markets like real estate and commodities.

“I suspect first-move advantage will still play a huge factor in this market,” Mr. Hougan added. “Our hope is that the SEC creates an

even playing field for providers to compete.”

The timing of BlackRock's application — which comes amid an ongoing crypto winter and after the SEC filed suit against Coinbase, BlackRock's custodial partner for the ETF — and its slew of imitators has prompted speculation that BlackRock “knows something” the public doesn't that would make it more likely for the SEC to approve its application.

BlackRock's Gargi Chaudhuri, head of iShares Investment Strategy, Americas, declined to comment on the application during a mid-year outlook news conference on June 28.

But industry insiders like Kristin Smith, CEO of Blockchain Association, an industry trade group, said BlackRock's application is not necessarily indicative of any arcane knowledge about the inner workings of the SEC. It likely has more to do with external factors, including the pending outcome of a lawsuit filed against the SEC by crypto investment manager Grayscale Investments, a wholly owned subsidiary of Connecticut-based crypto venture capital firm Digital Currency Group, she said.

## Grayscale's suit

The Grayscale Bitcoin Trust is currently the only way institutional investors can get exposure to bitcoin, and its limitations include high annual fees (Grayscale charges holders 2% annually, a much higher fee than comparable commodity products) and the inability to redeem shares.

Grayscale has long maintained that its plan is to convert GBTC to a spot ETF — a plan that was foiled last year when the SEC rejected its application. Grayscale appealed, filing suit against the regulator in October and calling the rejection “arbitrary, capricious, and discriminatory.”

sively managed investment funds or private equity funds. They can also delay the schedule for divestment if a pension fund determines that divestment from the restricted firms will likely result in a loss in value or a benchmark deviation.

If they decide not to divest indirect holdings, however, they must submit letters to the managers of each investment fund containing restricted companies requesting that they remove those financial companies from the fund or create a similar actively or passively managed fund with indirect holdings devoid of listed financial companies.

The \$20.3 billion Oklahoma Teachers' Retirement System, the state's largest pension plan, for example, is weighing whether or not to divest its indirect holdings, which account for about \$116 million of its total exposure of nearly \$125 million. If it does not, it must ask the managers of each investment fund containing blacklisted firms to remove those firms from the fund.

When asked if Oklahoma Teachers was planning to make such a request of its managers, Sarah Green, the fund's executive director, demurred.

“It's too early to tell,” she said. ■

Though a decision has not yet been reached by the District of Columbia Court of Appeals in Washington, Grayscale CEO Michael Sonnenshein has said he expects a decision this fall.

If and when Grayscale wins the case, Grayscale's victory would potentially open the floodgates for other spot bitcoin ETFs.

Meanwhile, major ETF players like BlackRock have filed their own



**‘I suspect first-move advantage will still play a huge factor in this market. Our hope is that the SEC creates an even playing field for providers to compete.’**

BITWISE'S MATT HOUGAN

applications, hoping to beat Grayscale at its own game while it's tied up in federal court.

BlackRock, the world's largest asset manager, had assets under management totaling \$9.43 trillion as of June 30. That includes ETF assets totaling \$3.22 trillion.

ETF analysts such as Bloomberg's Eric Balchunas have put BlackRock's odds of getting its application approved at 50% — higher than average odds for ETF approvals — buoyed by the asset manager's historical success rate.

BlackRock has had 575 applications approved by the SEC, and only one rejection for a non-transparent ETF in 2014, said Mr. Balchunas, based in Princeton, N.J.

## Surveillance agreement

BlackRock has seemingly learned from its rejected application: the asset manager's only failed application was for a non-transparent ETF with Precidian in 2014. And the SEC's historical reasoning for denying all other spot bitcoin ETF applications has been the potential for fraud and manipulation.

BlackRock's application, with

Coinbase as crypto custodian, contains a first-of-its-kind surveillance sharing agreement with Nasdaq. Coinbase is also the primary crypto custodian for the U.S. government, which owns nearly \$6 billion worth of bitcoins, and has been listed as custodian for many of the other institutional players now filing.

The surveillance agreements would give regulators access to information about market trading ac-

tivity, clearing activity and customer identities, reducing the possibility of market manipulation.

## Saving face?

In addition to providing more snooping access for regulators, BlackRock's ETF might come with another perk for the SEC — the ability to save face by approving another, more regulator-friendly spot bitcoin ETF and thus beating Grayscale to the punch. As Bloomberg litigation analyst Elliot Z. Stein put it: “The SEC and Chair Gary Gensler may be bracing for a loss and looking to pre-emptively soften it or make it meaningless by approving a spot bitcoin ETF application before or around the same time as a court decision.”

Ms. Smith said she's also heard this line of thinking on Capitol Hill.

“The SEC might want to approve (BlackRock's) ETF application and then go back to the court and basically prevent the court from having to make a decision at all,” Ms. Smith said. “The SEC realizes they're probably going to lose, they don't want to lose, so if they do this that would sort of moot the other case

and the judge wouldn't have to make a decision.”

While many in the market think that the flood of spot bitcoin ETF applications is connected to the Grayscale suit and other external circumstances, others have dismissed this as speculation.

Speaking on the Bankless podcast on June 22, Austin Campbell, a New York-based professor of business at Columbia University and managing partner of Zero Knowledge Consulting, said: “Anytime something like this happens at a traditional finance firm, and you see things come together over a two-week period, that's probably a culmination of six to 18 months of work behind the scenes. Everything moves slowly at these places.”

“The time scales you operate on are just glacial compared to what you're going to see in the regular world. If BlackRock filed an ETF application, they've been thinking about it for a while,” he said.

As for why they picked the current moment to file, Mr. Campbell put it down to two things: “One, it's telling the SEC and the U.S. government, if we can't get our act together here, there's a lot of things that are already happening offshore ... if you block us here, we're probably just going to take our business offshore.”

Mr. Campbell explained that U.S. financial regulators have been slow to provide regulatory guidelines for crypto — a fact that has chagrined many industry participants, who decry the SEC's so-called regulation by enforcement — while regulators in places like Japan and the European Union have created laws and guidance.

Mr. Hougan of competitor BitWise added that “spot bitcoin ETFs have been operating well globally for multiple years.”

“I think U.S. traditional financial firms are genuinely at the point of being very worried about being left behind, and that's part of the reason you're seeing these things come forward,” Mr. Campbell said. ■

Kathie O'Donnell contributed to this story.

from the list.

“BlackRock and State Street will still be in their 90-day appeal period when the first update to the list is expected to be published,” Jordan Harvey, the Oklahoma treasurer's chief of staff and deputy treasurer, said in an email.

Ms. Harvey appeared more open about the other blacklisted firms.

“We are hopeful to be able to remove some of the companies that were placed on the list because of their failure to provide an adequate response,” she said, referring to their responses to Mr. Russ' initial questionnaire in February. Those firms are GSM Grosvenor, Lexington Partners, WCM Investment Management, FirstMark Fund Partners and Stepstone VC Global Partners.

The other firms whose inclusion on the list hangs in the balance are J.P. Morgan Chase & Co., Bank of America, Wells Fargo & Co., William Blair, Actis and Climate First Bank.

## Other exemptions

Oklahoma's pension funds do have a few other more narrow exemptions at their disposal. State governmental entities, for example, are not required to divest from any indirect holdings in actively or pas-

## Frost

CONTINUED FROM PAGE 3

gy transition journeys, Ms. Frost said.

At a June board meeting, Ms. Frost told members that the divestment would result in an estimated 4.4-basis-point hit to returns per year to the plan over 10 years. Over a 20-year period, CalPERS estimates that fossil fuel divestment would result in a 3.6 basis points annual decline, amounting to \$327.6 million per year.

Officials at CalPERS as well as the \$309.3 billion California State Teachers' Retirement System, West Sacramento, which also would have to divest from fossil fuels, have taken part in “education tours,” speaking with legislators and explaining why divestment is not the right way, Ms. Frost said during her talk at the conference with Nikki Pirrello, P&I's president and publisher. The

two pension funds oppose the bill.

The bill has so far passed the Senate and next year the bill will pick up where it left off in the state Assembly's Public Employment and Retirement Committee. In the interim, the committee members are expected to engage with labor groups as well as CalPERS and CalSTRS about the bill, Ms. Frost said.

As a two-year bill, the measure will not need to be reintroduced.

## ESG politicization

Ms. Frost also decried the politicization of ESG, saying it doesn't fit with CalPERS' role as a long-term investor that makes sure its investments reflect the full measure of risks and returns.

“There's no common definition of environmental, social and governance factors,” she said. “It's being weaponized.”

One issue that is very important factor to consider in making investments is private and public compa-

nies' human capital management. Most recently, on July 12, Schroders in cooperation with CalPERS announced a framework to give investors information on how companies manage their human capital.

Ms. Frost said that the new effort is very similar to work CalPERS has been doing with alternative investment firm Carlyle Group called the ESG Data Convergence Project. The project, which launched in September 2021, aims to advance an initial standardized set of ESG metrics and a mechanism for comparative reporting. It now has more than 325 general and limited partner members worth a total of roughly \$27 trillion in assets under management from an initial \$4 trillion.

Companies that manage human capital well, which includes creating an equitable incentive structure, paying attention to on-site job injuries and prioritizing their employees get better results and provide better returns, Ms. Frost said. ■

## AT DEADLINE

**Energy grants on offer**

Details on how private finance can participate in a federal \$14 billion National Clean Investment Fund to boost affordable clean technology projects were released July 14 by the Environmental Protection Agency.

In the notice of funding opportunities, the EPA said it will award grants to two or three national non-profit financing entities “to create national clean financing institutions capable of partnering with the private sector to provide accessible, affordable financing for tens of thousands of clean technology projects nationwide.”

The competition is open until Oct. 12, with selections to be announced in March 2024.

The National Clean Investment Fund, created in the Inflation Reduction Act along with the \$6 billion Clean Communities Investment Accelerator program, focuses on the low-carbon transition in low-income communities.

The competitions are part of EPA’s \$27 billion Greenhouse Gas Reduction Fund program, which includes a \$7 billion solar competition to spur adoption of clean distributed solar energy.

**San Francisco commits**

San Francisco City & County Employees’ Retirement System disclosed new private credit, real estate and absolute return commitments and investments totaling \$280 million in a report from CEO/CIO Alison Romano included with materials for its upcoming July 20 board meeting.

Within private credit, the \$33.5 billion pension fund committed \$75 million each to specialty finance fund Castllake Aviation V Stable Yield and Cerberus Levered Loan Opportunities Fund V, a direct lending fund managed by Cerberus Capital Management. SFERS previously committed \$75 million each to Castllake Aviation IV Stable Yield and Cerberus Levered Loan Opportunities Fund IV, both in 2020. As of June 30, the pension fund’s actual allocation to private credit was 9.2%; the target is 10%.

Within real estate, the pension fund committed \$55 million to value-added real estate fund CapRock Partners Industrial Value-Add Fund IV.

And within absolute return, the pension fund made direct hedge fund investments of \$50 million in Torus Feeder 2, a quantitative hedge fund, and \$25 million in Prism Feeder 2, a global macro fund, both managed by Qube Research & Technologies.

**Dimensional seeks relief**

Dimensional Fund Advisors, the industry’s largest active ETF issuer, filed an application with the Securities and Exchange Commission seeking exemptive

relief that would allow it to offer ETF share classes of its U.S. mutual funds.

Those mutual funds represent about \$400 billion in investor assets, Dimensional said in a news release July 13. Dimensional currently offers 31 ETFs, all of which are active transparent ETFs, with assets under management totaling about \$95 billion, a Dimensional spokesman said.

In its application, Dimensional said it believes the ability of a fund to offer both mutual fund shares and ETF shares could be beneficial to the fund and to shareholders of each type of class.

**Black swan feared**

Institutional investors in the U.S. are bracing for an imminent black swan event — an unpredictable event that has potentially severe consequences — due to fears that recent turmoil in the regional banking sector was only a prelude to a larger financial crisis, according to the latest quarterly “Equities Sentiment Report” by CoreData Research. Specifically, almost 4 in 10 investors (38%) believe the Federal Reserve’s support for lenders has uplifted market confidence only temporarily and that a more widespread financial crisis may be imminent amid a climate of persistent inflation and high interest rates.

In addition, some 59% of surveyed institutional investors think that a tail-risk event has an above-average chance of occurring over the next three months, a CoreData spokesman confirmed in an email.

Roughly half (47%) of respondents think the regional banking crisis from earlier this year may impede economic growth, while some two-thirds (65%) expect interest rates and inflation to remain elevated over the next year.

Moreover, 45% believe that U.S. sovereign debt levels pose a major challenge for the economy in the medium term.

**Money market fixes OK’d**

The Securities and Exchange Commission on July 12 adopted a host of rule amendments aimed at shoring up the money market fund industry.

The amendments, adopted in a 3-2 vote with the SEC’s two Republican commissioners dissenting, will increase money market funds’ minimum daily and weekly liquid asset requirements to 25% and 50%, respectively, from 10% and 30%.

The amendments are designed to provide a more substantial buffer to better equip money market funds to manage significant and rapid investor redemptions in stressed market conditions while maintaining funds’ flexibility to invest in diverse assets during normal market conditions, SEC staff said.

**COLAs**

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funding and preserving retirees’ purchasing power.

For the one-time payment strategy, legislators and plan trustees say, “We can provide something that helps the retirees and limit the plan risk in the future,” Mr. Aubry said.

Nationally, the overall estimated funding ratio of the 100 largest U.S. public pension plans improved slightly to 74.8% as of April 30 from 74.5% a month earlier, according to the Milliman 100 Public Pension Funding index. Much of the COLA strategy variations occur in so-called ad hoc plans, which give legislatures and some pension plan boards an opportunity each year to assess or change benefits.

An August 2022 survey by the Center for Retirement Research of 220 state and local plans covering 90% of public plan assets showed 24% used an ad hoc approach for setting COLAs. The most frequent COLA strategies were those linked to the consumer price index (35%) and those with a fixed number (29%).

**North Carolina**

North Carolina Teachers’ and State Employees’ Retirement System, Raleigh, with a funded ratio of 90%, is an example of how an ad hoc system shifts between COLAs and one-time payments.

“At times, the General Assembly may determine that there are not enough budgetary funds available to cover the full liability that the retirement system takes on when a COLA is granted,” says the website of the \$83.3 billion pension plan. “Instead, the General Assembly may choose to grant a one-time benefit supplement instead of a re-occurring increase.”

The one-time benefit, the website adds, “is typically paid all at once and does not affect any future months’ payments.” Retirees received a one-time payment of 4% of their annual pensions in 2022, thanks to a provision in the state budget law enacted last year. A 2021 budget law provided a 2% one-time payment to retirees in that year.

The last COLA for retirees was a 1% increase that took effect July 1, 2017. Before that, retirees received 1% COLAs in 2012 and 2014, according to pension system records.

For the \$11.1 billion New Hampshire Retirement System, Concord, the legislature decides whether the system gets a COLA, a one-time supplemental payment or nothing for a fiscal year.

“This is by far the most common inquiry or complaint we receive from our retired members,” spokesman Marty Karlon wrote in an email.

There was no COLA between 2011 and 2019. There were one-time supplemental payments for certain members in 2011, 2012 and 2018.

A law enacted this year, which took effect July 1, provided a \$500 one-time payment to retirees or beneficiaries meeting certain requirements. Last year, another law provided a \$500 one-time payment to retirees or beneficiaries using different criteria.

“While the retirement system understands and appreciates our retirees’ concern about cost-of-living adjustments, this is not an issue where NHRS has discretion,” said the pension system’s website, which has a link to contact state legislators. NHRS also explained that histor-

**COLA practices vary among 2 large Ohio public plans**

Same state.

Same city.

Different pension systems.

And different approaches to cost-of-living adjustments.

For the Ohio State Teachers’ Retirement Systems, Columbus, the pension board’s decision in May to offer a 1% cost-of-living adjustment for the fiscal year that started July 1 was criticized by members as too little in the face of high inflation.

For the Ohio Public Employees Retirement System, Columbus, the system’s request in 2021 for COLA freeze for 2022 and 2023 was rejected by the state Legislature.

That means participants who retired before 2013 will continue receiving a 3% COLA and people who retired in 2013 and later will continue receiving a COLA tied to the CPI-W, the consumer price index for urban wage earners and clerical workers, and capped at 3%.

Having failed to secure enough votes in 2021, “we currently are not pursuing a freeze or any other COLA change,” Michael Pramik, a spokesman for the \$92.5 billion fund, whose funding ratio is 84%, wrote in an

email. The pension system cannot act unilaterally to change the COLA.

When OPERS asked legislators for a two-year COLA-freeze, it told participants and retirees that the action would reduce its unfunded liability by about \$3 billion from \$19.4 billion at that time.

“The temporary COLA freeze is important because COLAs account for 25% of the total annual pension payments we pay to our members,” OPERS said in a July 2021 message to members.

“Like others public pension funds, OPERS has experienced increasing unfunded liabilities in part because of inconsistent financial investment markets that date back to the Great Recession,” OPERS said. “Investment market volatility has a significant impact on our funding.”

Unlike OPERS, which needs legislators’ OK, the \$88.2 billion teachers’ pension fund’s board of trustees governs COLAs.

From the 2012 to 2107 fiscal years, it cut the annual automatic COLA to 2% from 3%, then eliminated the COLA between

ically COLAs have been affected by the dot-com crash of 2000-2001, the Great Recession and previous legislative decisions that contributed to the system’s underfunding. The actuarial funded ratio is now 65.6%. The last COLA was 1.5% in 2020 for certain members.

**System health**

One example where pension plan health trumps inflation concerns and any other enhancement of benefits is New Jersey: the state pension system hasn’t had a COLA since 2011. There is little chance for a revival in the near — or far — future.

A 2011 agreement between Gov. Chris Christie, a Republican, and the Democrat-controlled legislature led to a law designed to improve the health of the \$91.6 billion New Jersey Pension Fund, Trenton. Funding ratios for the three largest of the seven pension funds in the system — accounting for 99% of assets — range from 39.9% to 55%.

The law included increasing state contributions to the pension system in return for, among other things, raising employee contributions and suspending the automatic COLA until each of the separate pension funds within the pension system had an 80% funded ratio.

Public employee unions and other plaintiffs sued, saying the COLA was a “non-forfeitable right,” just like pensions. The state Supreme Court in 2016 upheld the COLA suspension. The U.S. Supreme Court declined to review the case.

In recent years, legislators have introduced bills in the state Senate and General Assembly seeking to revive the COLA. The bills have never left the respective committees to which they were assigned.

“Without the annual adjustment, retirees and beneficiaries will gradually see significant reductions in their purchasing power,” said one of the bills introduced last year.

Gov. Phil Murphy, a Democrat, hasn’t shown any interest in reviving the COLA, even as he has secured three consecutive fiscal years of full actuarial determined contributions for the pension system, including \$7.1 billion for the fiscal year that started July 1.

At a legislative budget hearing last year discussing proposed pension payments for the just-concluded fiscal year, Elizabeth Maher Muoio, the state treasurer, testified that reinstating the COLA would cost an extra \$2 billion in state contributions to the pension system and \$1.6 billion more in local contributions to the system for that fiscal year.

To meet the 2011 law’s requirement of an 80% funded ratio for each component of the system, it will take between 17 and 27 years for state contributions, depending on each pension fund, she said.

**Retirees pinched**

Even if their public plans offer COLAs, retirees likely won’t keep up with inflation, said Anthony Randazzo, executive director of the Equable Institute, a New York-based retirement research organization. The average public pension retiree’s COLA last year was 1.83%, according to a September 2022 report.

Plans with automatic COLAs would still be hard-pressed to offset inflation in recent years because COLAs are usually capped, often at 3% or less, and subject to downward adjustments.

“Most COLAs are between 1% and 2% (and are) designed as incremental increases,” he said. “The purchasing power of benefits has declined.”

Mr. Randazzo noted that legislators also can approve assorted other measures for pension funding to provide some benefits while making sure the changes don’t bust budgets, such as creating tiers in which new employees will get smaller pensions than long-time workers. Legislators

2017 and 2022 fiscal years.

The COLA went up to 3% for the next fiscal year, then down to 1% for the fiscal year that started July 1 for certain retirees.

Retirees who started receiving benefits on or before June 1, 2019, will receive the 1% COLA in the current fiscal year.

"The increase will be added to the base benefit on the retirement date anniversary," the board said. "Members who retired July 1, 2019, or later are not eligible for a COLA at this time (because) retirees must have received benefits for 60 months to be eligible for a COLA."

The COLA reduction triggered complaints by some members, most notably the Ohio Retirement for Teachers Association advocacy group, which said the adjustment was too small to address inflation.

A pension system spokesman told *Pensions & Investments* in May that a series of reforms enacted in 2012 were necessary due to the impact of the Great Recession of 2008-2009. Those reforms including giving the teachers' pension system board the ability to make annual COLA changes.

As a result of the reforms, the funding ratio reached 78.9% as of June 30, the spokesman said. Without the changes, it would have been 49.6%, he said.

— ROBERT STEYER  
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also can choose a COLA with non-compounding benefits, a less expensive formula than compounding benefits, he added.

The \$179.7 billion Texas Teacher Retirement System, Austin, illustrates how the Texas legislature has used a varied approach to enhancing pension benefits. The funding ratio is 79%.

In June, Gov. Greg Abbott signed into law two benefit enhancements: a one-time payment for retirees who reach age 70 by Aug. 31, 2023, and a COLA for those who retired on or before Aug. 31, 2020.

However, the COLA payment depends on voters approving a constitutional amendment in November to finance the COLA, since the amount from general revenue exceeds the state's constitutional spending cap limit. The COLA formula has a sliding scale of payments of 2%, 4% or 6% depending on when eligible members retired.

If voters approve the constitutional amendment, it will be the first time in 10 years that retired teachers received a COLA.

The last one was granted in October 2013 for those who retired on or before Aug. 31, 2004, Rob Maxwell, a teachers' pension fund spokesman, wrote in an email. The COLA was 3%, capped at \$100 per month.

The one-time payment takes effect in September. Retirees who turn 75 (or older) by Aug. 31, 2023, get a \$7,500 payment. If they turn 75 after that date, they receive a one-time payment of \$2,400. Retirees who turn 70 by Aug. 31, 2023, receive the \$2,400 stipend.

The last supplemental payment was made in 2021 for participants who retired on or before Dec. 31, 2020. Payment was in either the amount of their monthly annuity or \$2,400, whichever was less, Mr. Maxwell added. ■

Rob Kozlowski contributed to this story.

## Enforcement

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(the SEC) to use the administrative process for its enforcement actions or have it severely limited," said Jay A. Dubow, Philadelphia-based partner at Troutman Pepper Hamilton Sanders LLP who co-leads the firm's securities investigations and enforcement practice group. He noted that administrative process is typically quicker and less burdensome for the SEC when compared to enforcement proceedings in federal court.

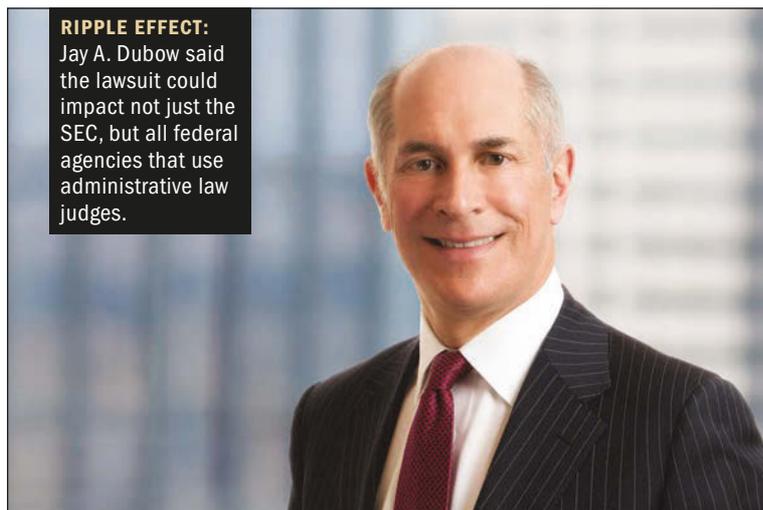
Administrative law judges, which are appointed by the president, are well-versed in many of the complex issues in the securities industry and, in particular, the professional standards for those registered with the SEC, sources said.

An SEC spokesman declined to comment on the Supreme Court taking up the Jarkesy case and the constitutionality of the agency's ALJ system.

The SEC began investigating George R. Jarkesy Jr. in 2011 after he selected Patriot28 as the investment adviser for two hedge funds he managed. The SEC alleged that Mr. Jarkesy and Patriot28 committed securities fraud and in 2013 instituted an administrative enforcement action against the two parties before an administrative law judge. Mr. Jarkesy subsequently sued the SEC arguing that the agency's structure and administrative enforcement powers violated the Constitution, according to a Troutman Pepper client alert.

The lawsuit has now found its way to the Supreme Court and could impact not just the SEC, but all federal agencies that use ALJs, including the Federal Trade Com-

**RIPPLE EFFECT:**  
Jay A. Dubow said the lawsuit could impact not just the SEC, but all federal agencies that use administrative law judges.



mission and Commodity Futures Trading Commission, according to Mr. Dubow.

### Likely SEC loss

As challenges to the SEC's ALJ system sprung up in recent years, the agency began bringing more cases in federal court instead of in-house, a trend that legal experts expect to continue at least until after the Supreme Court's decision in the Jarkesy case.

But those challenges so far have not slowed down SEC enforcement. In fiscal year 2022, the SEC enforcement division posted a record \$6.4 billion in penalties and disgorgement, up from \$3.9 billion the previous year.

If the court were to rule in the SEC's favor in the Jarkesy case, the agency would likely bring more cases through the administrative process, said C. Dabney O'Riordan, a partner in Quinn Emanuel Urquhart & Sullivan LLP's Washington and Los Angeles offices and former head of the SEC's enforcement division's asset management unit, though sources don't expect such a

ruling in this case.

In April, the Supreme Court unanimously ruled against the agency in SEC vs. Cochran, a case that focused on a procedural issue involving the SEC's use of ALJs. In that case, the plaintiff, Michelle Cochran, an accountant facing SEC administrative charges of violating federal accounting standards, originally challenged the constitutionality of the SEC's ALJ system in the Northern District of Texas in 2019. She asked the court to allow her to challenge the constitutionality of the ALJs in a U.S. District Court before the conclusion of the agency adjudication. Historically, a person or company facing charges heard before an ALJ had to go through a lengthy administrative process before bringing a case to challenge the constitutionality.

The Cochran case changed that precedent.

In light of the Cochran decision, the 5th Circuit's ruling in the Jarkesy case, a 2018 Supreme Court decision in Lucia vs. SEC that found that ALJs at the time were improperly appointed, and the conserva-

tive leaning Supreme Court, sources expect another ruling against the SEC in Jarkesy.

"This current makeup of the Supreme Court is one that could go against the ALJ process," said Christian D. H. Schultz, a Washington-based partner at Arnold & Porter Kaye Scholer LLP and former assistant chief litigation counsel in the SEC's enforcement division.

Added Mr. Dubow: "The consensus is that the court's going to rule against the SEC."

Of note, Justice Clarence Thomas in a concurring opinion in the Cochran case said that he has "grave doubts about the constitutional propriety of Congress vesting administrative agencies with primary authority to adjudicate core private rights with only deferential judicial review on the back end."

### Legislative fix

If the Supreme Court decides the ALJ system is unconstitutional, the SEC will be in an uncertain position, sources said. As it currently stands, there are certain cases that can only be brought administratively, such as efforts to bar or suspend a professional, like an accountant or attorney, from practicing before the SEC.

If the administrative process is deemed unconstitutional, there are questions around how those cases can be resolved. The SEC would likely need some sort of legislative fix from Congress, but the nature of the legislative fix would depend on how the court rules on the various challenges to the administrative process, Ms. O'Riordan said.

But in a divided Congress, lawmakers crafting a bill that can pass both the House and Senate will not be a simple task, she added. "A legislative fix would likely be very difficult right now," she said. ■

## Survey

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a little bit longer" before talking about new industry trends, said Tyler Cloherty, managing director and head of Casey Quirk's knowledge center, which conducted the survey.

For now, after mostly staying on the sidelines against the backdrop of a once-in-a-generation restructuring of the capital market environment, institutional investors are just now beginning to reposition their portfolios, Mr. Cloherty said.

"They were kind of waiting for the chips to fall and the environment to normalize to figure out how they're going to respond and now ... roughly six months into that normalization you're starting to see some of those investment committees come together and (ask) what are the big structural changes we need to make now that we're in a new environment," he said.

Passive exposures, meanwhile, could simply be the easiest lever to pull in pursuing those allocation shifts, whether to private equity, LDI strategies or core fixed income, Mr. Cloherty said.

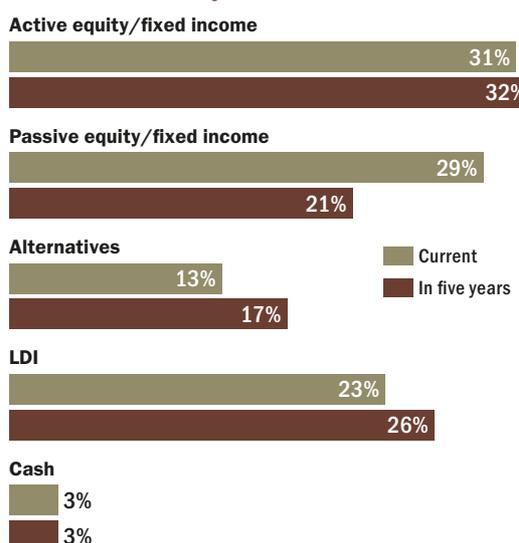
A survey-leading 35% of asset owners responding said they'll be looking to boost allocations to core/core-plus fixed income over the coming year or two, followed by private equity, with a net 20%, and private debt, with a net 16%.

Long-only equities, by contrast, saw as many respondents saying they'll be reducing allocations as

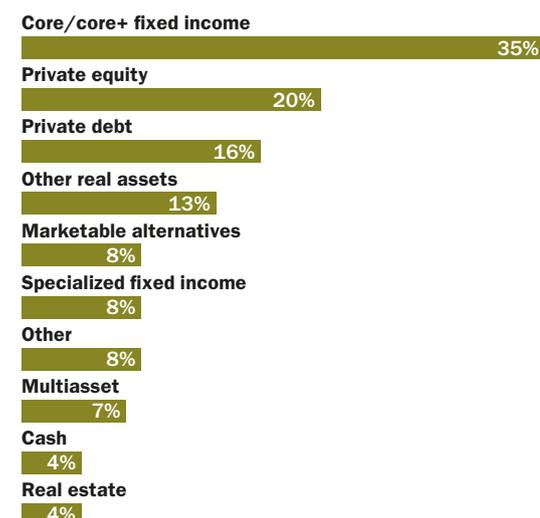
### Asset owners pinpoint growth areas

A 2023 Casey Quirk/P&I Future of Investment Management Survey showed respondents shifting allocations away from passive investments into private assets and core fixed income.

#### Current vs. expected asset allocations



#### Percentage of respondents indicating they will increase allocation\*



Allocations do not sum to 100 due to rounding. \*In the next one to two years. Source: Casey Quirk/P&I Future of Investment Management Survey

adding to them, with net-zero results on balance for global equities, U.S. equities and emerging markets equities over the coming year or two.

Mr. Cloherty said the interviews his team conducted with respondents as part of the survey process found sentiment mixed with regard to equities, with some conceding there could be more opportunities for active management now that central banks are no longer buoying markets, but overall no great enthusiasm.

"There was some interest around Japan, EMEA" and a couple of other regions, but they were few and far between, he said.

The anticipated rise in LDI allocations, meanwhile, could reflect the prominence of large U.S. institutional investors in the survey pool and where they are in their life cycles, Mr. Cloherty said.

A decent amount of those U.S. plans are derisking now, taking down some of their equity exposure and pushing up LDI allocations, he noted.

Whether passive strategies grow, maintain or lose market share over the next five years, Mr. Cloherty said the huge impact those strategies have had on fee consciousness in the industry should persist.

"It's such a substantial portion of the industry that it will always be a potential alternative" for investors and that commanding position in the fee conversation doesn't go away even if passive stops taking market share from active strategies, he said. ■

## Investing

# European investors seek out inflation protection

Asset owners evaluating portfolios in anticipation of future inflation spikes

By PAULINA PIELICHATA

Asset owners in Europe are employing a variety of inflation-protection strategies as they anticipate future inflation spikes, even as central banks globally are getting closer to the end of their tightening cycles.

The Federal Reserve left rates unchanged on June 14 for the first time since March 2022. And while the European Central Bank delivered another 25-basis-point rate increase a day later, it is also expected to be close to the end of its interventions in the eurozone.

But sources said that European investors are having to keep a close eye on their portfolios' inflation sensitivity because central banks were late to raise rates following the COVID-19 pandemic and late to cut them because of the energy crisis.

The tightening, which slows demand, combined with labor shortages and deglobalization trends, could result in the supply curve becoming less flexible — meaning that any change in demand would yield an inflation spike, sources said.

Headline inflation will average 5.4% in 2023 and drop to 3% in 2024, falling to 2.2% in 2025, according to ECB estimates.

While the ECB predicts that overall headline inflation will come

down further as soon as next year, investors in Europe are evaluating which asset classes could help them shield portfolios from any unpredictable inflationary spikes. They said that a combination of equity, real assets, inflation-linked bonds and precious metals could do the job in the current environment.

"Volatility of inflation is on the rise," said Luca Paolini, London-based chief strategist at the 219 billion Swiss francs (\$244 billion) manager Pictet Asset Management. Therefore, he said, it is wise for investors to hold on to inflation-protection strategies such as inflation-linked Treasuries. Mr. Paolini said that depending on an investor's risk profile, a 7% to 10% weight in inflation-protected U.S. Treasuries is appropriate for a global multiasset portfolio.

"While inflation is lower (currently), the inflation volatility is going to remain at elevated levels," Mr. Paolini said, because central banks are more backward-looking, meaning that they could have gone "too far" in their tightening.

Stefan Beiner, head of asset management and deputy CEO at Swiss Federal Pension Fund PUBLICA, Bern, which had 39.1 billion Swiss francs in assets as of Dec. 31, agreed with Mr. Paolini.

"The market expects inflation to come down and we also see that, but we see a higher probability that the reduction is not as fast as priced in by the market," Mr. Beiner said.

"Inflation could be much stickier than generally expected. The ability



Magnus Arrevald

**SHIELD:** Luca Paolini said a 7% to 10% weight in inflation-protected U.S. Treasuries is probably appropriate for a global portfolio, depending on the investor's risk profile.

of central banks to bring it down smoothly is overestimated," he said noting that due to the baby boomer generation retiring, the shortage of labor could affect the supply and demand dynamics.

PUBLICA has been introducing an inflation-sensitive portfolio with more real assets and precious metals in the last months.

Swiss real estate increased to 9% from 7% of assets, while international real estate increased to 9% from 6% of assets. At the same time, PUBLICA introduced infrastructure at 3% of its portfolio and is currently searching for managers. Precious metals allocation was increased to 3% from 2%.

"We have adjusted our strategic asset allocation by increasing our

long-term allocation to public equity and real assets. One of the reasons is to increase the inflation sensitivity of our portfolio. I wouldn't call it inflation hedges. It's a much broader concept than traditional inflation hedging found, for example in the U.K.," Mr. Beiner said.

In the U.K., Brightwell operates a twin-track strategy to hedge inflation for the £47 billion (\$57.9 billion) BT Pension Scheme, London, said CIO Wyn Francis.

"We have a direct approach driven by our specialist in-house LDI team, which focuses on index-linked gilts and swaps. We also invest in investment-grade corporate bonds, typically issued by U.K. utilities companies," he said.

"For corporate issuers, we

strongly prefer businesses with pricing power. Our indirect approach focuses on infrastructure, where there are inflation-linked returns and cash flows."

The plan is also working on a 50-year long-dated bond with a London council, effectively giving the council a line of credit to build sustainable social housing stock. "It's all part of moving the portfolio towards a position where cash flows match liabilities," he said.

Sources added that some inflation-protection strategies may also have been challenged.

Paul Flood, head of mixed assets at Newton Investment Management, said index-linked bonds have suffered significantly as both yields on government bonds have risen and inflation-linked bonds have gone from a negative real yield to a positive real yield in 2022. Holders of longer-dated inflation-linked bonds, such as the UKTI 0 1/8 2068 index-linked bond, have lost somewhere in the region of 75% of the value since the beginning of 2022, far more than peak to trough losses in equity markets, he added.

However, he said inflation-linked bonds are now much better positioned to offer investors protection against inflation since interest rates are at higher levels.

"Whilst it is likely real yields will remain positive, thus suggesting we won't return to the lofty valuations of the past, it does now provide investors with an opportunity to protect themselves against inflation if held to maturity," he added. ■

## Allocations

CONTINUED FROM PAGE 1

System, West Sacramento; \$180.4 billion Florida Retirement System, Tallahassee; \$87.9 billion Ohio Public Employees' Retirement System, Columbus; \$43.1 billion New Mexico State Investment Council, Santa Fe; and \$10.7 billion Chicago Public School Teachers' Pension & Retirement Fund have adopted new asset allocations or are on the road to doing so.

"In some ways higher inflation and higher (federal) funds rates did change our long-term asset return assumptions for each of our asset classes, especially for those that are inflation-rate sensitive," said Alison Adams, Portland-based managing principal and a research consultant on the capital markets research team at Meketa Investment Group.

In 2019, when Treasury bonds yielded 2.5%, institutional investors had to decide how risky a portfolio they had to have to get to a 6.5% to 7.5% assumed rate of return, Ms. Adams said.

"Now with government bonds providing healthy yields, it has changed that assumption," she said.

Unlike just a few years ago, investors are considering whether to incorporate more inflation-sensitive assets into their portfolios, Ms. Adams said.

"In 2019, you couldn't get some people to buy TIPS (Treasury inflation-protected securities) to save your life. Now many want TIPS and inflation-sensitive fixed income," Ms. Adams said.

### Public equity cut

In May, CalSTRS adopted a new asset allocation, cutting its public equity target by 4 percentage points to 38%, boosting fixed income by 2 percentage points to 14% — with most of it aimed at private credit — and increasing its private equity and inflation-sensitive allocations by 1 percentage point each to 14% and 7%, respectively.

As part of its analysis, CalSTRS asked its general investment consultant, Meketa Investment Group, to include stagflation, deglobalization and, for the first time, climate change in its portfolio modeling. Stagflation — a decade or more of high inflation and slow global GDP growth — would be worse for CalSTRS' portfolio than any other factor, Meketa's report showed.

When there is stagflation, no asset class does well, said CIO Christopher Ailman at the May meeting.

"It's an environment in which it is hard to make money in anything," Mr. Ailman said. "Diversity doesn't work because everything is stuck in the mud."

Stephen P. McCourt, Meketa managing principal and co-CEO, said at the same meeting that those who believe that the global economy is now in a period of stagflation say it is due to the reversal of globalization.

Over the past four decades, global trade increased every year, mostly from China joining the global economy, which acted as a tailwind to earnings and global capital markets, Mr. McCourt explained. Another positive side effect of globalization was lower inflation, he said.

"We outsourced all of our jobs to

people who would do it cheaper," Mr. McCourt said. When inflation is low, bond yields also drop and asset prices go up, he said.

"Most of what we experienced in our lifetimes has been a gentle tailwind that has helped global markets," he said.

CalSTRS officials acknowledge that asset allocation is an art and a science. The science is the numbers but the art is "we don't know what we don't know," said Geraldine Jimenez, senior investment director of public markets, at the pension fund's May meeting.

That's why, historically, CalSTRS has been increasing the diversification of its portfolio by adding new asset classes and reducing global equities, Ms. Jimenez said.

Four years ago, CalSTRS added a 10% risk-mitigating strategies allocation.

The new asset allocation CalSTRS adopted in May includes exposure to direct lending for the first time, Ms. Jimenez said. CalSTRS officials expect direct lending to complement its existing publicly traded credit portfolio by improving the fund's risk-adjusted returns. It also will add "modest" diversification by shifting assets from global equity to direct lending, which has "a relatively more stable income profile," a report to the investment committee said.

The best answer to the unknowns is "staying diversified and increasing our diversification," Ms. Jimenez said.

### Real estate challenges

In today's new normal, some of the asset classes investors previously turned to in higher inflation



**REVERSAL:** Alison Adams said real estate, which typically offers protection during high inflation, is under pressure.

environments are facing challenges, Meketa's Ms. Adams said.

Real estate is one of those.

"Real estate is generally something you want to hold when inflation is higher for longer, except some of these real estate vehicles are under some pressure," Ms. Adams said.

And then there is the health of private real estate if interest rates go up even higher, she said.

"What would that do for real estate valuations? Will landlords be able to increase rents?" Ms. Adams queried.

An asset class that investors often turn to when they wanted to reach for yields was emerging markets, Ms. Adams said.

But with U.S.-China trade tensions quite high, emerging markets may no longer be where investors would go to find that additional return needed to reach the 6.5% to 7.5% return that an institutional investor might expect, she said.

Inflation should settle out much higher than it was in the last cycle, said Indrani De, New York-based head of global investment research at FTSE Russell, a London Stock Exchange Group business.

"Investment-grade bonds will do better than equities for the first time in a very long time," Ms. De said.

High yield is very correlated to equities and so in this cycle, investors will get more diversification benefits from investment-grade bonds, she said.

While no one can be sure, in the coming cycle, equities could have a lower return than in the past, Ms. De said.

However, developed and emerging market equities are becoming more uncorrelated and should continue this trend over the next 10 or 11 years, which provides asset owners more opportunity for diversification, she said.

Among alternative investments, there has been more dispersion of returns, which requires investors to be more selective.

According to a June FTSE Russell report, listed infrastructure has outperformed listed real estate over the past year. Within listed real estate, there was significant dispersion in returns with data centers doing the best and office sector performing the worst, the report said.

Private market versions of listed asset classes are expected to follow suit. Industry research in general shows that private real estate, infrastructure and private equity returns generally follow listed real estate, infrastructure and equities by two to three years, Ms. De said. ■

## CHANGES AHEAD

**New Mexico State Investment Council**, Santa Fe, is searching for one or more active investment managers to run a liquid short-duration high-yield fixed-income strategy, spokesman Charles Wollmann said. The size of the allocations will be determined later. The council oversees \$43.1 billion in endowments. The RFP is posted on the council's website. Proposals are due by 5 p.m. MDT on July 26.

### HAVE SOME NEWS?

Please submit news of changes to John Fuller, news editor, at [john.fuller@pionline.com](mailto:john.fuller@pionline.com)

**Kansas Public Employees Retirement System**, Topeka, is searching for a record keeper for its \$1.3 billion 457 plan. The retirement system issued an RFP due to the upcoming expiration of current record keeper Empower Retirement's contract at the end of 2023. The RFP is available on

KPERS' website. Proposals are due at 3 p.m. CDT on July 28.

**Chicago Municipal Employees' Annuity and Benefit Fund** is looking to commit a total of up to \$60 million to private equity funds, said Stephen Wolff, investment officer, in an email. The \$3.8 billion pension fund issued an RFP for managers that offer small and middle-market buyout funds, growth equity funds, secondary private equity funds and co-investment funds, Mr. Wolff said. The RFP is available on the pension fund's website. Proposals are due at 5 p.m. CDT on July 28.

**Galveston County**, Texas, is searching for an investment consultant for its \$115 million defined contribution plan. A request for qualifications is posted on the county's website. Proposals are due at 2 p.m. CDT on July 31.

**Worcester (Mass.) Retirement System** is looking to commit a total of up to \$20 million to infrastructure funds. The \$1.2 billion pension fund is seeking proposals from managers of open-end and closed-end large-cap private infrastructure funds, according to an RFP posted on the website of investment consultant Meketa Investment Group, which is assisting with the search. Proposals are due at noon EDT on Aug. 2.

**Hillsboro**, Ore., is searching for a record keeper for its \$51 million 457 plan and \$1 million 401(a) plan. The city is considering consolidating to a single record keeper from the two record keepers it currently uses for the plans, according to an RFP posted on the city's website. Registration is required. Proposals are due at 2 p.m. PDT on Aug. 4.

**Iowa Department of Administrative Services**, Des Moines, is searching for an investment consultant for the state's Retirement Investors' Club, a voluntary retirement savings program consisting of a \$1.2 billion 457 plan, \$1.1 billion 403(b) plan and \$388 million 401(a) plan. The department is seeking an investment consultant to provide ongoing services regarding the review of investment providers serving the plan, according to an RFP on its website. Proposals are due at 2 p.m. CDT on Aug. 9.

**Arapahoe County**, Littleton, Colo., is searching for a record keeper for its \$82 million 457 plan. The county issued an RFP after electing not to renew current record keeper MissionSquare Retirement's contract and put the services up for bid, said Robert Perry, senior purchasing agent for the county. The firm is eligible to rebid. The RFP is available on BidNetDirect. Registration is required. Proposals are due at 2 p.m. MDT on Aug. 9.

**Fonds de Reserve pour les Retraites**, Paris, is seeking a service provider to perform an ESG measurement and analysis of its investment portfolio. The €21.3 billion (\$23.2 billion) pension fund wants to fully understand financial and non-financial risks and opportunities associated with investing in its portfolio companies. Submissions should be sent via FRR's procurement portal by noon Central European Time on Aug. 21.

The **Swedish Fund Selection Agency** is searching for up to six large- and/or midcap European equity managers to run state retirement savings. The selected firms will in total manage 11 billion Swedish kronor (\$1 billion) in assets for the recently reformed Sweden's public premium reserve retirement platform, which forms the country's mandatory defined contribution system. The deadline for applications is Sept. 14 via procurement platform e-Avrop.

**Pennsylvania Municipal Retirement System**, Harrisburg, will conduct a search in the third quarter for an active domestic small-cap value equity manager to run about \$45 million. Interested managers should contact investment consultant Marquette Associates, which will assist the \$3 billion plan with the search.

## Fixed

CONTINUED FROM PAGE 1

at the beginning of the year was linked to a belief that the rate-hiking cycle would terminate around June. Despite the Federal Reserve's momentary pause in raising rates in that month, she said, more rate hikes are now expected, which is tempering that level of optimism.

Regardless, she said, the rate hikes will end in the relative short term, and institutional asset owners undertaking asset-liability studies should take into consideration higher expected returns over the next 10 years.

One of Wilshire's institutional clients looking to increase its fixed-income exposure is the \$2 billion Tacoma (Wash.) Employees' Retirement System.

"Over the course of 2022, as interest rates rose and the expected return from fixed income increased, Wilshire and staff thought it wise to run an asset-liability study to see if we could further increase our fixed income allocation," said Tim Atwill, the pension fund's deputy chief investment officer, in an email.

"In general, TERS is in a pretty well-funded status (mid-90%), and we seek to reduce the risk profile of the asset portfolio if we can still safely reach our assumed rate of return. The results of the asset-liability study confirmed the obvious — that we could move assets out of public equity and increase allocations to core fixed income and still hit our expected return targets," Mr. Atwill said.

The asset-liability study is ongoing. Prior to this year, the pension fund only had one core fixed-income manager, TCW Group, which managed about \$250 million for the pension fund as of March 31. Given the likelihood of the fixed-income allocation increasing, Mr. Atwill said rather than hire one additional manager to diversify the portfolio, the pension fund decided to hire two managers.

At its May 11 meeting, the board approved the hiring of Brandywine Global Investment Management and Brown Brothers Harriman to manage active core-plus fixed-income portfolios. The sizes of the portfolios are pending the results of the asset-liability study.

### Strong long-term outlook

Ms. Bewick said the long-term outlook for fixed income is the strongest it's been for decades. During the first quarter, Wilshire's 10-year return assumption for domestic equities was 6.15%, while the assumption for core fixed income was 4.6%, for an equity risk premium or difference in return of 1.55 percentage points.

This is a multidecade low for the equity risk premium, and she ex-

pects the risk premium to decline further for 10-year assumptions in the future. As recently as the first quarter of 2021, the equity risk premium was 2.7 percentage points.

"The return per unit of risk is very attractive for fixed income," Ms. Bewick said. "We believe in diversification, of course. Risk assets are not going to be abandoned in the portfolio, but for money to be put to work through incremental changes in asset allocation, fixed income seems to be a fairly good buy at a relatively low risk level when compared to equities."

The \$2.2 billion Cincinnati Retirement System last month hired Reams Asset Management to run between \$125 million and \$130 million in a new active domestic core-plus fixed-income portfolio as part of a new asset allocation with more fixed income.

The board at a Feb. 2 meeting approved increases in the target allocation to core-plus fixed income

State Board of Administration, said in an email their investment staff currently likes investment-grade financials and some securitized assets. Overall, he said, since the recovery in the markets following the collapse of Silicon Valley Bank, they have been slowly reducing risk in their portfolio.

Mr. Ludgate said the market may have finally gotten the signal that the Fed is going to keep hiking rates, although pricing does not reflect that.

"The Federal Reserve has communicated a willingness to hike as long as the inflation data continues to come in above target," Mr. Ludgate said.

"While the market has largely come around to this view, future rate cuts currently priced in are in disagreement with the Fed. The probability of a downturn in the economy is correlated to the expected rate cuts; the Fed does not share quite such a pessimistic view," he said.

**'We've seen some signs investors are comfortable in public fixed income at these yields rather than reaching for alternatives.'**

J.P. MORGAN ASSET MANAGEMENT'S  
KAY HERR



to 11.5% from 6% and core fixed income to 8% from 6%.

Still in progress is a search for an additional active domestic core fixed-income manager.

Florida's pension fund is among other asset owners looking to diversify away from public equities and to fixed income, through the Florida State Board of Administration, Tallahassee, which will consider a new asset allocation for the \$180.4 billion Florida Retirement System.

Trustees will vote on the investment advisory council's recommendations at their Aug. 22 meeting.

The proposed changes include increasing the target to fixed income to 21% from 18%, which includes extending the duration of the portfolio to "full aggregate" by changing the benchmark for the portfolio to the Bloomberg U.S. Aggregate Bond index from the Bloomberg U.S. Intermediate Aggregate Bond index.

Investment consultant Aon Investments USA Inc. said in a presentation that the modestly higher target and duration extension were recommended to "enhance portfolio diversification and fixed income's expected risk-adjusted returns." The consultant also recommended dropping the target to public equities to 45% from 53% in order to lower expected volatility.

### Florida State Board

Todd Ludgate, senior investment officer — fixed income, at the Florida

J.P. Morgan Asset Management is among the managers that see a positive environment for fixed income and growing interest among asset owners for traditional fixed income. Kay Herr, Providence, N.J.-based global head of research for global fixed income currency and commodities at JPMAM, said in an interview that while asset owners can get caught up in the near-term debates whether there will be a recession, for the long term fixed income had a historic repricing and offers an attractive risk-reward proposition. Ms. Herr will succeed the retiring Steven Lear as U.S. CIO of global fixed income currency and commodities in October.

She said that while many asset owners have dipped into alternative asset classes such as private credit in order to "reach for yield" in recent years, signs are showing renewed interest in traditional fixed income.

"To look at institutional, U.S. corporate pension clients from what we're seeing are continuing to add to fixed income, encouraging derisking, and I think there have also been some multiemployer Taft-Hartley pension plans that have received federal funding and that's invested in fixed income," Ms. Herr said.

"I think we've seen some signs investors are comfortable in public fixed income at these yields rather than reaching for alternatives," she said.

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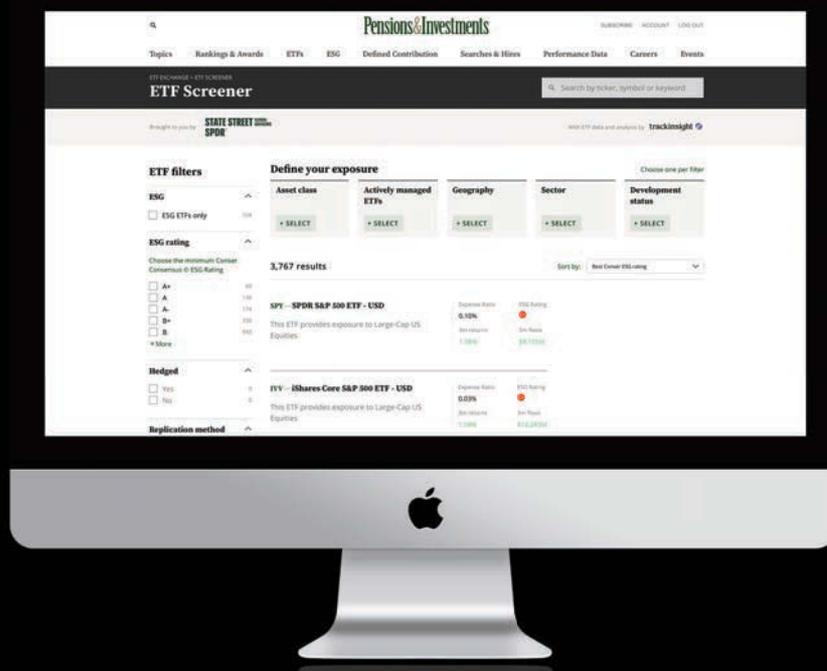
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