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Exclusive Insight on Pension Fund Activity, Mandates & Trends

Money Management Letter

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In This Issue

Corporate Plan Focus

MMI looks at what corporate funds are doing to keep afloat.

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Top Stories

Tennessee Consolidated Eyes $1.65B Credit Bucket

The **Tennessee Consolidated Retirement System** is evaluating a new asset allocation that could place $1.65 billion into credit strategies within an expanded private equity bucket. While portfolio targets haven't yet been finalized, the fund is proceeding on a rough plan to direct $300 million into private equity investments in the year ahead, according to CIO **Michael Brakebill**. That may include both credit and other private equity strategies such as buyouts. The investments will be funded from cash and redemptions. The fund is also contemplating building its real estate and emerging markets equities programs.

New laws, signed in May, authorized the roughly $33 billion fund to raise its PE caps

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Penn Public School Employees Takes Passive EM Equities In-house

The roughly $50 billion **Commonwealth of Pennsylvania Public School Employees' Retirement System** will bring emerging market equities index investing in-house in a move it says will save on manager fees and create more flexibility and liquidity in its $1.97 billion emerging markets portfolio. The move highlights a route some pension funds are taking to reduce investment costs by not shelling out fees to external managers. Pennsylvania already has the technology and infrastructure in place for $15 billion it manages in-house. Internally managed holdings include U.S. equity index funds, MSCI All Country World Index ex. U.S., and U.S. core fixed income portfolios.

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Contract Impasse

Hawaii Expands TPA Search With Second DC Plan

The Honolulu-based **Hawaii State Deferred Compensation Plan** has amended and reissued a third-party administrator request for proposals for its $1.6 billion 457 plan (*MMI*, 6/11) to include a $90.9 million 3121 deferred compensation plan for part-time employees. The amended RFP follows notice given by the 3121 plan's incumbent, **Life Insurance Company of the Southwest**, that it would not continue its contract.

"We revised the RFP because our administrator is seeking to terminate the contract," explained **Cynthia Akiyoshi**, personnel management specialist for the plans. The current

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Penn Public *(Continued from page 1)*

To build the portfolio, the system has hired **Jane Jeong**, who previously managed the internally managed emerging markets equities program at the $235 billion **California Public Employees' Retirement System**. "We believe this mandate will allow PSERS to expand its global investment capability, improve investment flexibility and liquidity, and enhance staff knowledge," reads an internal memo on the initiative. Officials at the system declined to comment on the size of the prospective in-house EM equities portfolio. The investment staff is not clear if the fund will bring its entire EM equities portfolio in-house, according to spokeswoman **Evelyn Tatkovski**. **Batterymarch Financial Management**, Wasatch Advisors and Wellington Management Company were the fund's EM equity managers, as of June 2011, fund documents indicate. The managers did not return calls or declined to comment. PSERS current level of EM investment could not be determined by press tme.

Not For Everyone

Investing in emerging markets equities in-house via exchange-traded funds or country-weighted index funds is a less risky and labor-intensive approach than doing so for an actively managed EM portfolio, which requires frequent travel, arduous paperwork requirements and sophisticated knowledge of a broad geographic area that public funds may lack. "To access that depth of talent to outperform the indexes and compete with money managers in emerging markets is a big challenge for public funds," said **Pete Keliuotis**, chief executive at consultant group **Strategic Investment Solutions.**

The perennial personnel churn faced by U.S. pension funds may be the largest obstacle to building a stable in-house investment program. Public pension funds would more effectively retain talent and bring more investing in-house if salaries weren't such a political hot potato, **Lawrence Schloss**, CIO of the $122 billion **New York City Retirement System**, said at a New York industry conference in July (*MMI*, 7/19). "If we internalized [our portfolio] a bit and paid reasonable compensation...I could save all the excess that we pay to the money managers," Schloss said. The average salary of U.S. fund investment staff is $148,000, lagging their Canadian counterparts, who are paid an average salary of $536,000, according to Toronto-based research group **CEM Benchmarking**.

Nevertheless, some public funds have already made moves to bring passively-managed assets in-house. The roughly $80 billion **State of Wisconsin Investment Board** in 2011 divested from a $4.6 billion **MSCI** World ex-US index fund from **BlackRock** and started managing the assets internally. The approximately $9.3 billion **Orange County Employees Retirement System** indicated in its 2012-2014 strategic plan that it would explore "incremental" steps towards in-house passive management (*MMI*, 10/12). ***—D.L.***

Hawaii Expands *(Continued from page 1)*

contract requires the insurance company to provide a guaranteed minimum 3% return on investments for participants and, due to market conditions, the insurer decided it could not continue to guarantee that rate, Akiyoshi explained. "We tried to renegotiate the contract and couldn't agree to terms," she said. The 3121 plan has been administered by Life Insurance Company of the Southwest for at least 15 years.

Akiyoshi was doubtful the insurance company would rebid: "I'm not sure if they provide services for 457 plans but if they are able to provide services for both the 3121 and the 457 plan, they'll be invited to rebid." **ING Retirement Services** provides services for the 457 plan and has been invited.

RFP questions were due on Aug. 15, with responses to those questions slated to be issued on Aug. 24. Proposals are due Sept. 5.

Further information could not be gathered by press time. Media relations reps for Life Insurance Company of the Southwest did not immediately return requests for comment. ***—Kristina Monllos***

Quote Of The Week

"There is no comprehensive risk model. All have gaps."—**Alan Biller and Associates**' President and Senior Consultant **Alan Biller**, on funds' move to classify their portfolios by risk factors rather than by asset class (see Consultant Profile, page 14).

One Year Ago In Money Management Letter

The nearly $7.6 billion **Cook County Employees and Officers Annuity & Benefit Fund** searched for a manager to run a core-plus bond mandate valued at up to $340 million. [The county hired **MacKay Shields**.]

Five Years Ago

The $23 billion **Employees Retirement System of Texas** voted to make a 5% foray into hedge funds. [Most recently, the $22.9 billion system began to prep an asset/liability study for its Aug. 21 board meeting.]