

Low-return environment has CIOs thinking differently — Pension Bridge conference

BY [ARLEEN JACOBIOUS](#) | APRIL 6, 2016

Pension fund officials speaking at the Pension Bridge conference on Tuesday are dramatically changing the way they are managing their portfolios in the face an expected low-return environment.

William J. Coaker Jr., chief investment officer for the \$20 billion San Francisco City & County Employees' Retirement System who spoke at the conference, said economic indicators point to low returns for an extended period of time. Mr. Coaker pointed to the endowment model, which allocates a high amount of assets into public and private equity, as a good thing. The endowment model also seeks high alpha from manager selection.

For example, Yale University's \$25.6 billion endowment has earned more of its excess returns from "overlooked" portfolios of international and domestic equity portfolios than its buyout, natural resources and venture capital portfolios, Mr. Coaker said.

Yale executives have earned excess returns in these asset classes through manager selection, Mr. Coaker said, picking specialists by country, regions and sector as well as managers that they expect will continue to provide excess returns.

Manager selection is extremely important when selecting hedge fund managers because there is a wider dispersion between top- and bottom-performing hedge fund managers than with private equity managers, Mr. Coaker noted. The San Francisco pension fund added a 5% hedge fund allocation last year.

Hawaii Employees' Retirement System officials have eliminated specific fixed-income and real estate target allocations as part of its risk-based asset allocation policy that considers what risk factors are driving returns, said Vijoy Chattergy, chief investment officer of the Honolulu-based \$14.1 billion pension fund, speaking on a different panel on the risk allocation framework. That is not to say the pension fund's portfolio lacks exposure to fixed income and real estate, Mr. Chattergy said. For example, the pension fund's principal protection portfolio — with a 7% target — includes credit and its real-return portfolio includes Treasury inflation-protected securities, he said. Non-core real estate is part of a private growth portfolio. (The private and public growth portfolio target is 76%.)