Asset owners describe steps to increase control, independence

By ARLEEN JACOBIUS April 18, 2017


HOOPP's Jim Keohane

Some of the asset owners speaking at the Pension Bridge Annual Conference Tuesday described how they are managing assets internally and taking other steps to increase control.

Jim Keohane, president and CEO of the Healthcare of Ontario Pension Plan kicked off the discussion in his keynote speech titled "Best Practices in Pension Fund Management: The Canadian Model."

The C$70.4 billion ($52.9 billion) pension fund earned a net 10.35% on its investments in the year ended Dec. 31, had a funded status of 122%, with the majority of its assets managed internally, Mr. Keohane told the near-capacity audience, mostly made up of asset owners.

In-house management also leads to better risk management, because institutional investors lose the ability to control their portfolios when they outsource money management, he said.

Pension funds that separate themselves from government entities are better able to hire and retain top talent, Mr. Keohane continued.

In a governmental environment, retaining talent "becomes a big political issue," he said.

"Writing $1 million checks to investment (professionals) is not popular with the public," Mr. Keohane noted.

Pension funds that are separate from the government might not have to pay as much as they think for top talent because investment professionals are attracted to managing portfolios without also having to raise money, as is the case in the private sector, Mr. Keohane said.

However, it was unions that pushed for HOOPP to be run on independently, he said.

“It could not happen today because unions are weaker,” Mr. Keohane said.

Another headwind to other public pension plans becoming independent is the investment consulting and money management industries, he said.

The investment industry's self-interest, in that it makes a lot of money from pension funds outsourcing money management “should not be taken lightly,” he said.

That said, even HOOPP uses some outside managers, he acknowledged. For example, Canadian tax law prohibits HOOPP executives from building real estate to sell. HOOPP can only build to hold, he said, so it does use some real estate investment managers.

Speaking on a panel later in the day, Steve Yoakum, executive director of the Missouri State Employees' Retirement System, Jefferson City, which includes $8 billion in defined benefit assets, said the current investment environment is the most difficult in his more than 40-year career.

The governance model at many public pension plans also makes it more difficult to run the plans, Mr. Yoakum said.

“You have lay, part-time people and (are) asking them to manage billions of dollars,” Mr. Yoakum said.

A model — which he called “the Missouri model” —in which the board chooses the asset allocation while investment staff makes the tactical decisions should be “the model in the future,” he said.

MOSERS' investment staff members are employees of the trust fund and not employees of the state, Mr. Yoakum explained.

“We don't have to go to the (Missouri) Legislature to add staff,” as is the case in many other jurisdictions, he said.

That said, the Missouri pension plan is not moving to manage the entire portfolio in-house.

“We would need 200 people to run Missouri internally,” Mr. Yoakum said.

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