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Texas Teachers Is Moving Expansion Plan Forward

Guthrie says increasing the team will be a “hard sell” to legislature.

Texas Teachers Retirement System executive director Brian Guthrie says he expects the pension system’s board of trustees to approve a plan in June to increase internal management of the system’s \$150 billion portfolio, but says it’s going to be hard convincing the state legislature to add the 120 positions necessary to implement the plan.

Guthrie, speaking at the Pension Bridge Conference in San Francisco on Tuesday, said the approximate doubling of the system’s investment staff in the next five or six years is going to be “a real hard sell.”

Texas law requires the state legislature to approve all positions for the retirement plan.

“Last time I went to the legislature asking for new positions, I asked for 20 and I got five,” he told a CEO conference panel of pension plan CEOs. “So asking for 120 is probably going to create some sticker shock but we’ll see how it goes.”

Jerry Albright, the system’s Chief Investment Officer, first proposed the expansion of the system internal management plan in February, estimating that cutting external managers could save \$600 million of the \$1.4 billion the system spends annually in investment costs.

Albright’s plan put a heavy emphasis on increasing the internal management of the system’s private markets investment program, from the current 20% to 30%, including creating a structure to allow pension officials to make direct real investments without external managers.

The plan also increases global management of the system's global equities program to 50% from the current 40%.

Direct private equity investments would also be a possibility, similar to Canadian pension plans, but Albright said in February that the idea is still being explored and possible implementation would not come towards the end of the multi-year private markets internal management plan.

Guthrie told *CIO* that he expects more details of the direct investment program to be revealed at the next board meeting of the retirement system on April 19.

At that meeting he said, "we will put a lot more meat on the bone."

Guthrie said the pension plan's board is generally supportive of the proposal and would likely approve it at its meeting on July 27.

The Texas state legislature only meets once every two years, so Guthrie said the legislative body would not consider the matter until its next six-month meeting, which starts in January 2019. Given that, it could take two years to begin the plan, he said.

Thirty-two percent of Texas Teachers' \$150 billion portfolio is invested in private markets, which include real estate, private equity, energy and natural resources investments. The pension system has aggressively been eyeing private market investments, and, among public pension plans, has one of the largest allocations to the area.

TRS also opened a London office in 2015 to help source private market deals, the first U.S. plan to open an overseas office.

Guthrie said during the *CIO* interview that while the rationale for the proposed expansion of internal management in private markets is to save the plan money by cutting external management fees, the timing is also right. He said system investment officials have developed expertise working alongside external managers in private markets.

For the example, the system's private equity program is only about a decade old, and the system investment staff has been building their knowledge during that time period, working alongside general partners, he said.

"It's time to taking the training wheels off," he told *CIO*.

Some US public pension plans have large, direct real estate investment programs, but no U.S. plan has been able to replicate the so-called Canadian model in private equity on a large scale. Under that model, Canadian pension plans make a large part of their private equity investments through direct investments, eliminating general partners.

Part of the problem is the high compensation necessary for paying private equity investment officials, say those who have studied the issue.

"I don't think it's going to ever happen in the U.S.," Ash Williams, executive director and chief investment officer of the Florida State Board of Administration told *CIO* in a separate interview at the Pension Bridge Conference. "Most public bodies are not going to pay the salaries necessary to do that. You're talking about a team of people with seven figure incomes. There's not a state legislature in the country that would approve it."

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