PENSION FUNDS

10-year equity rally isn't enough to raise public plans' funded status

BY ARLEEN JACOBIUS · APRIL 10, 2019 6:14 PM · UPDATED 3:33 PM

GETTY IMAGES

U.S. public pension plans' funded status dropped in the 10 years ended 2018, during a period when equities rallied, said Ashwin Alankar, portfolio manager and head of global asset allocation and risk management at Janus Henderson Investors at The Pension Bridge Annual conference in San Francisco.

"Risky assets (equities) have had a phenomenal ride," over the 10-year period, Mr. Alankar said Wednesday.

U.S. pension plans benefited from the rally in risky assets, but the benefit was only partial, he said.

"Despite the rally, pension plans' funded status did not improve" from 2008 to 2018, Mr. Alankar said. "Compounding matters is that liabilities have not let up," he said.

If pension plans haven't been able to improve their funded status in an era of a rally in risky assets, "one potential solution is we can take more risk in our portfolios," Mr. Alankar said.

During breaks, consultants and pension officials queried by *Pensions & Investments* attributed the failure of the bull market to help their funded status to employers failing to consistently make their actuarial contributions to the plans or pension fund being too risk adverse.

In a separate panel, with Elizabeth T. Burton, CIO of $16.8 billion Hawaii Employees' Retirement System, Honolulu; John Claisse, CEO at Albourne Partners; Ryan LaFond, deputy CIO of Algert Global; and R. Christian Wyatt, head of multistrategy research at Angelo, Gordon & Co., highlighted that while hedge funds have had a tough time lately, investors shouldn't count the industry out.

"The hedge fund industry has plateaued, but the strategy has continued to expand," Mr. Claisse said. "The outlook for hedge funds is quite positive with the exception of long/short strategies."

Rapid advances in what used to be called "alternative data" that had helped long/short managers outperform are now widely available, Mr. Wyatt said.

Long/short managers used to fly around the country to capture data such as numbers of people exiting a store or satellite images of trucks and their destinations, but technology has commoditized this data, Mr. Wyatt said.

"Their methods are now systematic," Mr. Wyatt said. To survive, these managers need to cut their fees and integrate the quantitative approach into their strategies, he said.

Hawaii doesn't invest in traditional hedge funds, said Ms. Burton, who until July had been managing director, quantitative strategies group at the $46.3 billion Maryland State Retirement & Pension System, Baltimore. "Not every hedge fund is the same," she said.

Ms. Burton added that hedge fund investments are "not going to work" for short-term investors.

"Performance has not been fantastic," Ms. Burton said. However, "I can't think of anything other than a Ponzi scheme" that never underperforms, she added.

At the Maryland pension fund, she said she was limited to not taking more than 0.2 beta in portfolio volatility.

She likened the limitation to parents giving their high school-age child a 10 p.m. curfew and locking the door "but the window is still open," Ms. Burton said. "You can't have rules. … You have to tie in incentives to make sure the manager has incentive to find the best fit."

At Maryland, she said she was hindered by a static allocation to hedge funds.

When asked for her favorite hedge fund strategy, she gave two: quantitative multistrategy managers to find uncorrelated investments and general partner stakes for the consistent coupon or income as well as for diversification.

"I would not have said this five years ago," Ms. Burton said. "I miss the big macro giants of the 1990s. That's why I got into this business…. I wanted to be a macro gunslinger."

CONTACT ARLEEN JACOBIUS AT AJACOBIUS@PIONLINE.COM · @JACOBIUS_PI