



Retirement News Highlights

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Pensions Brace for Uncertain Markets in 2021

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After a sharp market decline in the first quarter of 2020 and a rousing recovery, some pension funds intend to maintain a diversified portfolio to ride out any unexpected volatility while seeking to maintain liquidity.

A combination of the two allowed the \$14 billion San Diego County Employees Retirement Association (SDCERA) to put money to work in the market in March and early April as markets swerved. The pension has “smiled all the way” since then, says CIO Steve Sexauer.

The pension bought U.S. and global equities and was also able to take advantage of opportunistic investments in the fixed income space, pouring roughly \$375 million into high-yield bonds, mortgage-backed securities and asset-backed securities through fixed income managers, says deputy CIO Thomas Williams. Over the course of six to seven months, the pension got double-digit returns on those investments, he says.

Sexauer is firm on not making forecasts for 2021, but he’s using two philosophies to guide his actions: “never bet against the Fed when they’re arm-in-arm with the U.S. Treasury,” and sector performance is very asymmetric right now.

“If you’re a mall retailer or work in a mall, it’s a horror show,” he says. “[But], if you work in an Amazon facility,... you cannot get enough hours. We think next year this asymmetry isn’t going away.”

SDCERA will continue along the same course as last year, Sexauer says. That is, with lots of liquidity and fully diversified. “We are not making any active ‘the world’s ending’ or the ‘world’s great’ type of positioning,” he adds.

Calendar-year to date through September, the fund returned 0.4% versus its policy benchmark of 1.5%. Its three-year return was 5.1% and its five-year return was 7.1%, compared to its benchmark's returns of 5.9% and 8.0% respectively.

Similarly, the \$11.5 billion Chicago Teachers’ Pension Fund in 2020 aimed to maintain diversification by continuing to hire and commit to private equity, real estate, and infrastructure managers, says CIO Angela Miller-May.

The CIO began the year with the sense that markets were overvalued and there would some type of market correction. As a result, the pension started the year off with an asset liability study, which

included a stress test of the portfolio factoring in a 20% drop in equities. The decision was made to maintain the pension's current asset allocation policy and targets just as the portfolio experienced the real effects of the March crash.

The fund has ultimately outperformed its benchmarks, returning 10.2% over the past year, compared to its policy target of 8.6%; 7.0% over three years compared to its target of 6.6%; and 8.9% over the last five years compared to 8.7%.

In 2021, CTPF will continue to stay disciplined to its investment policies and will aim to select outperforming managers, she says. The fund, which has a long history of advocating for equitable access to capital for minority and women-owned firms, will also work to encourage managers to hire diverse staff and will use environmental, social and governance (ESG) metrics to evaluate managers and strategies.

In addition to bracing for unexpected market events, the newly formed Police and Firemen's Retirement System of New Jersey (PFRS) must get up and running while planning to improve funding levels.

The pension, which was created in 2018 after Governor Phil Murphy signed a bill allowing police and firefighters to split their portfolio from the state's division of investment and create a new board, will gain full control of its roughly \$26 billion in assets around the middle of the year.

It will then need to decide how to invest those assets.

"It's a phenomenal challenge," says the pension's first CIO, Russell Niemie, who was hired in October. A veteran of the pension world, he previously spent 16 years as CIO for the New York State Nurses Association Pension Plan and Benefits Fund and seven years as CIO at the Employees Retirement System of Texas.

Niemie likens PFRS to a startup, with the pension not only needing to build its investment portfolio, but also needing infrastructure, policy, and staffing to operate.

Building a new fund during a period of volatility is particularly challenging. Nobody knows what 2021 will bring, Niemie says, so the pension's focus will be on creating a long-term investment discipline that will help the pension "weather those storms."

One of the first issues the pension will tackle is liquidity. The current plan, including a mortgage program, has a ratio of liquid to illiquid assets of around 60/40. "That's a little bit high," Niemie says.

Another topic to discuss with trustees is whether the pension can afford to take on more risk, says Niemie. The pension is currently about 70% funded. Niemie's view is that the funding status will need to improve before it starts taking on more risk.

The pension will also seek to maintain its private equity allocation, which is well over 10%, Niemie says, but with a focus on doing due diligence and choosing quality investments over quantity.

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