Retirement News Highlights

*Monday, April 13, 2020*

# Maryland State Retirement CIO says fund in 'good shape'

***Diverse asset allocation key to weathering coronavirus storm***

By Brian Croce

***Pensions & Investments***

April 13, 2020

The COVID-19 pandemic has wreaked havoc on nearly all facets of life in recent weeks. It's certainly dealt some challenges to the Maryland State Retirement & Pension System, Baltimore, as well, but Chief Investment Officer Andrew C. Palmer said the $56.1 billion pension fund is still in good shape.

Despite a rough end to the first quarter — Mr. Palmer estimates that a portfolio with the system's allocation would roughly experience a -9% return for the quarter, though numbers from March are still coming in — he said the system's balanced portfolio headed off deeper losses.

"We've got a good mix of assets and diversified risks," Mr. Palmer said. "We think we're doing better than plans with more concentrated exposures to equity markets now."

As of Dec. 31, the pension fund's asset allocation was 50.7% growth equity, 19.4% rate sensitive and cash, 12.2% real assets, 8.9% credit/debt, 7.6% absolute return and 1.2% multiasset.

Following the 2008 financial crisis, said Mr. Palmer, who joined the Maryland system in 2015, staff worked to better diversify the system's portfolio. "We decided we didn't want to have that much of our portfolio coming from one market's risk," he said. "We had a tremendous amount of U.S. equity risk at the time" of the financial crisis.

Since the market volatility began in February, Mr. Palmer and his team — who have been working from home for the last four weeks — have rebalanced the system's portfolio "a bit at the margins ... but we haven't really made any large changes."

The investment committee next meets on May 19 and Mr. Palmer said stakeholders will likely discuss reviewing the system's asset allocation, particularly, "the role of long government bonds when at one point they're below 1%," he said. "They will still provide great diversification and deflation but it used to be that you could do that at 8% and it almost didn't cost you anything, now at 1% it's a trade-off. How much protection are you getting?" On the positive side, Mr. Palmer said the response from Washington has been quicker this time when compared to the financial crisis. "The market turned in 2009 when the Fed basically said, 'We're going to do what it takes,'" he said. "This took about two weeks for the Fed to pull out the bazooka to start addressing this stuff and the fiscal response has been more rapid. The timing and the policy is better than the financial crisis."

Through February, the system had a net 3.1% return fiscal year-to-date, Mr. Palmer said. As of June 30, its funded status was 72.9%.

"We really do feel like having a lower volatility portfolio is in the interest of the beneficiaries, so we're hoping that this is an example of how that works when it turns out not to be that painful overall," Mr. Palmer said. "We're in pretty good shape."

MARYLAND STATE RETIREMENT and PENSION SYSTEM

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