

Pensions&Investments

PENSION FUNDS

New Connecticut treasurer wants to maximize pension fund returns, minimize risk

By [JAMES COMTOIS](#) - March 4, 2019



Shawn T. Wooden said he wants to work closely with the state's investment advisory council and Gov. Ned Lamont on pension fund issues. BILL MORGAN

By [JAMES COMTOIS](#) - MARCH 4, 2019

Updated with clarification

As the newly elected Connecticut state treasurer and principal fiduciary of the state's \$34 billion [Connecticut Retirement Plans & Trust Funds](#), Shawn T. Wooden has big shoes to fill.

But Mr. Wooden said with a laugh: "I've got big feet."

After taking office in January, Mr. Wooden replaced Denise L. Nappier, who previously served as state treasurer and principal fiduciary of the CRPTF for 20 years. He said in a phone interview his primary goal with regard to the pension funds "is to be very mindful of being a fiduciary."

Pensions&Investments

PENSION FUNDS

New Connecticut treasurer wants to maximize pension fund returns, minimize risk

By [JAMES COMTOIS](#) - March 4, 2019

As sole trustee of [the Hartford](#)-based state pension funds, Mr. Wooden sees it as his job to "maximize the returns of the pension system while minimizing the risk." And with the economic environment looking to be volatile in the future, the state's new treasurer believes that "risk factoring and risk control is going to be key" to achieving strong returns for Connecticut's pension assets.

In addition to working closely with state's investment advisory council, Mr. Wooden hopes to do this "through prudent asset allocation to achieve a diversified portfolio and liquidity management."

He defines risk control as "constructing a diversified portfolio of assets and rebalancing to established asset allocation targets to mitigate the variability and the volatility of investment returns over the long term," adding that risk control "also includes maintaining proper liquidity to manage benefit payments and to support our private market investment programs."

Mr. Wooden plans to hire a principal investment officer responsible for risk management, a position that has been vacant for several years.

"I certainly expect some choppy waters ahead," Mr. Wooden said. Before being elected treasurer, Mr. Wooden was a partner at law firm Day Pitney LLP, where he led its public pension plan investment practice. He was also a member of the investment section of the National Association of Public Pension Attorneys.

Mr. Wooden's office will look to reduce its exposure to public equities while upping its exposure to fixed income. Allocations to private investments, meanwhile, will remain as diversifiers in the overall portfolio and won't change significantly. However, the treasurer's office does plan to increase its exposure to private real assets such as core infrastructure "to further reduce the risk profile of the portfolio and provide an additional hedge against inflation," Mr. Wooden said. CRPTF had an

Pensions&Investments

PENSION FUNDS

New Connecticut treasurer wants to maximize pension fund returns, minimize risk

By [JAMES COMTOIS](#) - March 4, 2019

allocation of 50.7% equities, 24.4% fixed income, 21.6% alternatives, and 3.3% cash as of Sept. 30, according to *Pensions & Investments* data.

When it comes to active vs. passive investing, the treasurer's office hasn't changed its position too much. "In general, we utilize passive strategies in areas that we feel are efficient and will employ active strategies in less efficient markets that have the ability to generate alpha, net of fees," Mr. Wooden said, adding: "We may also use active strategies to take advantage of opportunities that come about through market dislocations."

The treasurer said he believes one way to maximize the state pension funds' returns while minimizing the risk is to form a strong collaborative relationship with the state's investment advisory council. The CRPTF, which was about 45% funded as of April, consists of six state pension funds and nine state trust funds.

"I intend to work very closely with our IAC. I've already had a meeting with the group, I've spent time with the chair, so I expect a very good and collaborative working relationship going forward," Mr. Wooden said. "Council members are required by statute to have experience in matters related to investments, and they actively participate in asset allocation/liability discussions and advice on all aspects of the investment program."

Proposed reforms

Recently, Mr. Wooden worked with Connecticut Gov. Ned Lamont to propose restructuring the \$18.7 billion state Teachers' Retirement Fund, which includes reducing the assumed rate of return to 6.9% from its current 8% and stabilizing the state's payments to the plan by extending the payment period to reach full funding to 30 years from 12 years. TRF is 57.7% funded.

Pensions&Investments

PENSION FUNDS

New Connecticut treasurer wants to maximize pension fund returns, minimize risk

By [JAMES COMTOIS](#) - March 4, 2019

The proposed legislation would also create the TRF Special Capital Reserve Fund, which would initially will be funded with \$381 million out of the state's current year general fund surplus and provided with a backstop funded by lottery proceeds.

"This proposal for restructuring for our Teachers' Retirement Fund is an example of the degree of collaboration, of working with the governor, and with the office of policy management, that was done within 30 days of entering the office," Mr. Wooden said. "That's the collaborative style of leadership that I think works well."

In response to Mr. Lamont's budget address, Jeff Leake, president of the Connecticut Education Association, the state's largest teachers union, said in a statement that although the CEA "supports ... the governor and treasurer's plan to smooth out the state's payments to the fund over a longer period of time and lower the investment earning assumption to a more realistic rate," the union is opposed to an additional proposal from the governor requiring local municipalities to pay 25% of the employer contribution.

"There are solutions to the state's pension debt problem that do not require shifting the burden to local taxpayers," Mr. Leake added. "We intend to have conversations with the governor on this important issue and look forward to working with the administration and legislators to develop a responsible budget that manages future pension costs."

Jan Hochadel, president of Connecticut's American Federation of Teachers, was similarly mixed on the governor's proposed reforms. Although she agreed that "smoothing out future payments will help make up for decades of politicians failing to adequately invest in this public asset and begin to restore stability to educators' pensions," she noted that "there are proposals in the governor's budget package that demand our opposition and protest."

Pensions&Investments

PENSION FUNDS

New Connecticut treasurer wants to maximize pension fund returns, minimize risk

By [JAMES COMTOIS](#) - March 4, 2019

"We've already made clear we're not willing to shift more risk onto the backs of retired state employees, which threatens to pick the pockets of seniors living on fixed incomes," Ms. Hochadel added.

Regarding her expectations of Mr. Wooden going forward, Mr. Hochadel said in an email: "We appreciate the treasurer's collaborative efforts to engage us in adopting solutions for an issue with a direct impact on our members — past, present and future. His work to move this initiative forward shows his commitment to Connecticut's classroom educators and the long-term stability of our state's economy."

Fitch weighs in

In response to Connecticut's proposals to contain the rising cost of pensions on state finances, Fitch Ratings said in a statement issued Feb. 28 that the proposed changes "would alleviate significant fiscal risks to the state over roughly the next 12 years tied to scheduled, escalating contributions to the Teachers' Retirement Fund."

"However," the statement continued, "the funding changes to be made for TRF would increase costs to the state over the long run, in the same manner as funding changes made two years ago for the State Employees Retirement System."

The statement added that the result of the proposals is unlikely to affect Fitch's rating on the state, "as Connecticut's pension burden is unlikely to diminish any time soon absent more extensive changes to funding practices or retirement benefits."