Connecticut State Treasurer Shawn Wooden Pushes Diversification, Risk Management

The newly elected Connecticut state treasurer sees maximizing returns and minimizing risks as the top priorities for the overall pension portfolio and the private-equity program

Shawn T. Wooden PHOTO: CONNECTICUT STATE TREASURER'S OFFICE

By

Isaac Taylor

July 11, 2019 1:21 pm ET

Shawn T. Wooden was elected the state treasurer of Connecticut, serving as the fiduciary of the state’s roughly $36 billion pension system. He stepped into the role in January, taking over from Denise Nappier who had run the state pension for nearly 20 years. WSJ Pro Private Equity caught up with the new Treasurer to talk about his vision for the pension fund and its growing private-markets portfolio. Here are edited excerpts from a recent interview:

WSJ Pro: Now that you have been in this position for about six months, what do you see as the top priorities for the overall pension portfolio and the private-equity program?

Mr. Wooden: I want to maximize returns and minimize risks. Specifically within that, one of the first things I did was complete the new investment guidelines for the office. That was based on an ongoing asset liability study that was completed. Once that was completed and approved, I would move forward with changing our asset allocation guidelines. With the change, we have a target of approximately $900 million of annual commitments to smooth our deployment pace and achieve a target policy allocation of 9% for private equity. On a comparative basis, that was different from the prior couple of years. In 2017, we committed about $746 million and in 2018, $548 million.

WSJ Pro: What initiatives are you working on over the coming months and years?

Mr. Wooden: One has been increasing our allocation, which we've done. Two, as a result of that, deploying more capital faster than we have done in recent years. Three, changing the [asset] mix. And one of the areas we have increased both in terms of our guidelines and our actual activity is in infrastructure investments. That will be a key priority going forward, as well as implementing a co-investment program within our private-markets pool.

[Another initiative], which is pretty central to my view of managing investments going forward, is our hiring of a new chief risk officer. This will be the first time this office has such a role, but that is a critical new initiative on our part that we will be announcing within the next 30 days—who that individual will be. Within the first 90 days, because this is a new role, the CRO would be focused on creating a structured, disciplined program of risk management that combines both human capital within the office and with technology.

WSJ Pro: Why do you want to increase co-investments?

Mr. Wooden: It's a lower cost way to deploy capital and generate return with investment partners that are already vetted and that we have confidence in. Frankly, not doing co-investments, I see it as leaving returns on the table. Every one of our private-market investment managers are potential candidates as co-investment partners. We're certainly not there yet because we are still creating and launching our co-investment program.

WSJ Pro: What areas, whether by fund size, strategy or geography, would you like to expand within the portfolio?

Mr. Wooden: We're certainly looking to increase our private-equity exposure into Europe, and also select international regions including Asia, Africa and Latin America. It's diversifying to manage risk and diversifying to take advantage of market opportunity where there is greater potential upside. Today we are 95% North America focused.

WSJ Pro: How are you preparing the overall portfolio for a potential market downturn?

Mr. Wooden: We've reduced the [actuarial] return assumption. Our assumptions are more aligned now with market expectations. We've already changed our asset allocation guidelines, which takes that into account. One of the changes has been to reduce our global public-equities exposure. Despite the fact that in recent times it's been a very robust performer, we're reducing that exposure and increasing our fixed-income exposure. [The] fixed-income allocation…will be used to help manage and account for market volatility going forward.

Write to Isaac Taylor at Isaac.Taylor@wsj.com