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Some plans already taking action on risk, liquidity

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Shawn T. Wooden said the Connecticut fund is in a 'pretty good position now' because of steps taken before the crisis.


Photo: Bill Morgan

Although this crisis is proving to be a trying time for struggling pension funds, a number of underfunded public plans have already taken steps to mitigate risk and ensure liquidity.

"I came in with a clear sense that the market wasn't going to continue to roar for the next decade," said Shawn T. Wooden, state treasurer and principal fiduciary of the $37 billion Connecticut Retirement Plans & Trust Funds, Hartford. "And as a long-term investor we have to think long term. So, very early on, I talked a lot about risk and risk management."

Mr. Wooden's office lowered the state's $18.7 billion Teachers' Retirement System's assumed rate of return to 6.9% from 8% to manage expectations. His team also revised investment policy guidelines, which included decreasing its global equities exposure, increasing fixed income and using hedge funds for risk mitigation.

In addition, in August Mr. Wooden named Kevin Cullinan as chief risk officer — a new position for the treasurer's office — to monitor risk across the entire portfolio.

The Connecticut treasurer added that liquidity for the state plans is strong, and the CRPTF "is being managed very defensively."

"Because of the action that my team has taken over the past 14 months or so, we're in a pretty good position now," Mr. Wooden said. "I didn't expect this significant health crisis creating such a severe downturn, but the steps that we took were all of the things one should be doing in this environment."

Connecticut isn't the only plan that had been anticipating a market downturn.

"The markets have been volatile for some time now and we've been preparing for a market downturn," said Angela Miller-May, CIO of the $10.5 billion Chicago Public School Teachers' Pension & Retirement Fund.

To strengthen and diversify its portfolio, Chicago Teachers has begun to shift its private equity investments to more direct investing with fund managers and reduced funds-of-funds investing, and has begun to diversify across developed and emerging markets. In real estate, it also increased its focus on more income-generating assets over appreciating assets. And across the whole investment portfolio it has moved toward more active management.

"If you waited until this moment to get a plan together, you're just caught," Ms. Miller-May added. "We don't want to make any rash decisions."

Rich Robben, CIO of the Frankfort-based Kentucky Retirement Systems, said that the $16.8 billion retirement plan already had a conservative asset allocation due to its challenged funded status, which stood at 32.8% as of June 30.

"We were running only about 30% public equities, with a large overweight to core fixed income," Mr. Robben said, adding that the plan entered the current coronavirus crisis with "$3 billion of dry powder." Over the month of March, the plan bought more than $1 billion in stocks.

Kentucky will continue to rebalance its public equities exposure and take advantage of opportunities in the credit market as they present themselves, Mr. Robben said.

"Given that ... even our best funded plans are funded at less than 50% it keeps us from being particularly aggressive," he added.