**State of the State – A Conversation with Investment Consulting Leaders**

**Moderator:**

**Bonnie Stanfield, CFA | Director, Consultant Relations| Putnam Investments**

**Speakers:**

**Janet Becker-Wold, CFA | Senior Vice President & Manager | Callan**

**Russ Ivinjack | Senior Partner | Aon**

**Rich Nuzum, CFA | President, Wealth | Mercer**

**George Tarlas, CFA | Senior Managing Director | Asset Consulting Group**

**Janet Becker-Wold, Callan**

Roll, type of org. their firm has become

* 25 years; started in manager research with international
* Independent and wholly employee owned; senior consultants are stable
* Our story is embedded in our culture; research, independence and collaboration
* Greg Allen: The CRO - Chief Research Officer; research is the hallmark of the brand needs to lead from the top
* Where we see Margin compression mainly in DC space
* Bigger corporate business than public fund in terms of number of clients
* Launched series of co-mingled investment trusts
* Set of target date funds rolling out now
* Buy some of it or buy all of it
* Have to get more creative in bringing solutions and pricing effectively

**Research, co-chair search committee**

* sees every search that comes across
* Research people play a very important role
  + Very dispersed
  + General Consultants, Specialist Consultants, general research, members of search committee
* Alts becoming more important
  + Added 3 people
  + Expanded real assets resources and coverage
* 42 analysts and over ½ are partners; institutional memory important to our clients
  + Increasingly looked at Trusts and Custody; help negotiate
* Target Date Funds
  + Growing rapidly
  + Glide path analytics; attribution all the way down to fund level; provides more transparency; glide path appropriate for the client
* DC: help get construction better with lower cost
  + Use a blend of active v. Passive

**Russ Ivinjack, Aon Hewitt**

* 25 years and prior at SEI;
* Chair US Investment committee
* Lead solutions group
* What is Aon today
  + Global professional services firm
  + Broad collaborative
* OCIO and how focus from traditional
  + Solution provider; created multi-manager funds to aggregate and drive fees down
  + Clients had problem: take a ton of work off their plates; lower cost than they could have done it themselves
  + Clients want co-investment opportunities (Townsend acquisition last year)
  + Biggest growth is partial OCIO
* Compensation for OCIO v. Traditional
  + Client satisfaction
  + Incent them to grow the business
  + Have separate sales teams; commission
* Change in research?
  + Centralized research team and dedicated teams
  + Identifying managers to include in searches and monitor current managers
  + Want best ideas? New strategy or new ideas that can be implemented within own multi-manager strategies for OCIO
    - Bring scarcity to our clients
* Target date funds
  + See market going to customized funds

**Rich Nuzum, President Mercer Wealth**

* 27 years; joined in Tokyo
* Run OCIO and retirement business
* Shift away from corporate DB is a big deal and creating a lot of stress
* Intermediary between investment managers and clients
* Growing in OCIO; good margin in traditional consulting
* Lots of asset owners hiring in house staff
* Digital self-service model
* Always role of advice
* Clients want coverage of alternative investments
  + 165 people full time on alts and still not enough to cover everything
* Lots of diff. Flavors of OCIO
  + Daily feed from custodian; see bets PMs are taking daily;
  + Trying to pick luck from skill: can have conversation on daily look at themes as it happens rather than after the fact
* Mercer subscribers to digital research
  + Helps them find strategies that might be a fit
  + Which meetings to take, which strategies to pursue
  + Want to be early and be right
* OCIO performance value
* Asset manager a partner or a threat?
  + Doesn’t manage securities and wants to be a good partner
  + Likely 100 traditional investment managers are competitors
  + Lots more managers to partner with; Mercer becomes channel to bring that together
* Asset management fees 100% performance-based fee?
  + In same industry trying to provide solutions
  + Market clearing rate for access to capacity and beating the market
  + Industry is efficient because all the work we collectively do
  + Idea that fees are not aligned hurts us
  + For most of industry it doesn’t work. Possible it could be detrimental to the client (non-diversification, levering up, locking in)
* Focus on low cost don’t get sued or OCIO with alts in target date going forward; only see if litigation pulls back; Like Australian model
* Covering a broader footprint; consultant specific share classes; getting higher hit rates; could cause more concentration

**George Tarlas, Asset Consulting Group**

* Senior MD at Asset Consulting
* When joined, was one of 13 employees
  + Did it all
* Co-manage firm and responsible for institutional
* 130 clients; $130 billion in collective assets
* One of biggest challenges is differentiation across consultants
* Has both discretionary and non-discretionary
* Think of it as a slot business
  + Find clients that really value what they do and do it well rather than be all things to all people
  + Customized solutions
* Traditional Business: hold margins or try to grow them?
* Find clients that really want advice, more than just performance reports, margins have been held
* Jury still out on OCIO basis
* What can we do differently? Better advice under one structure or another
* Take lead of ultimate investor: governance issue or delegate everything across the board; struggle with how to price that business;
* US Based institutional basis: interaction with clients and sourcing opportunities
  + Research as a cost center or a benefit? Question has been around for a long time
  + Values research
    - Longevity and client interaction
    - Senior research team as much with Client Service as consultant
    - Client can know up to a dozen employees beyond the consultant
    - Many non-traditional research is on direct dial from the client
* Never want to feel undermined in roll by managers
  + Managers that take approach to providing competing solutions are not collaborative
* Markets are not all going to be robust; remind at every turn; reallocating when necessary, having conversations
* Even in 4Q clients didn’t react that much;
* Feels a little too calm; reaction isn’t as cautious as would expect
* Wealth clients: more all over the board because of the personal and emotional tie to the wealth creation; more unpredictable

**Breakout Session Track 1: Traditional Investments**

**Have We Seen This Movie Before? What Has Changed and What Have We Learned?**

**Moderator:**

**Kurt Terrien | Managing Director, Institutional Sales| Clarkston Capital Partners**

**Speakers:**

**Erin Archer, CFA | Treasurer | DePaul University**

**Thomas Foster, CFA | Director, Pension & Trust Investments | Pinnacle West Capital Management**

**Anurag Pandit, CFA | Chief Investment Officer | ALSAC, St. Jude Children’s Research Hospital**

**Ronald Thompson, CFA, CAIA | Vice President, Pension Investments & Chief Investment Officer | Alcoa Corporation**

**Ronald Thompson** – Alcoa Corporation:

* 50% Equity / 35% Alternatives / 15% Fixed Income.
* $5B Pension Plan AUM & Underfunded status of $2B.
* Ron joined Alcoa 1 year ago to manage a conventional portfolio.
* Ron was previously at Dow Chemical.

**Thomas Foster** – Pinnacle West Capital Corporation

* Pinnacle West is a holding company in Phoenix
* Only thing Pinnacle still owns is Arizona public utility
* Tom runs ~$6B plus - PP, 401k, medical and nuclear decommissioning and a few other things.
  + In 2008, Tom was in the mid-west in Des Moines, Iowa at another utility -> worked for Warren Buffet.

**Erin Archer** – DePaul University

* Erin is responsible for the Endowment, the Short-Term Investments & the Core Portfolio
* She is also a fiduciary on DC plan
  + ~$2B AUM which includes $700M in the Endowment & $1B DC
* Erin was an equity analyst covering US Financials in 2008.

***Q: 2008 – What happened 11 years ago and what have you been doing since then? There’s been a lot of change since then and in Dec. 2018, things starting to get ugly but did not last. The markets have had a long bull run.***

**Thomas Foster** – Pinnacle West Capital

* World changed -> Nightmares.
* At BRK, the Pension Plan is nothing compared to Balance Sheet of BRK in 2008.
* Today, at Pinnacle, the Pension Plan is large vs. Balance Sheet and moves with volatility that impacts the funded status.
* 2008 – it was a serious condition, with a lot of people shut out of commercial paper
* There are two paths that a plan can take: 1) Go to an insurance company like Prudential and buy annuities or 2) LDI. At Pinnacle, they chose this route and Funded LDI at their pace
  + Interest rate risk that plan sponsor sees is uncompensated.
* Hedge interest rate risk out 100% because you cannot call interest rates and you are not compensated for it and cannot do it.
* A lot of Plans making that same decision such as GM and Chrysler.

**Ronald Thomson** – Alcoa Corporation

* Shift of funded status?
* Returns still matter
  + Alcoa - ~1 year ago, the decision was made for the Plan is to de-risk over 5 years and get out of the pension business, but it is underfunded today.
  + They want to annuitize when they get to a certain funded status.
* 2008-2010 – Dow Chemical – accelerated contributions and funded status increased to 90%.
  + extended Duration -> 1 committee member didn’t want to do it, as he was focused on performance
* Strong views on interest rates by the treasurer.
* Very hard decision to make.
* Rates are low and some rates are negative 🡪 hard and expensive to do.

**Erin Archer** – DePaul University

* What is different between now and 2008?
* Weren’t as worried in 2008 for students because there is an increase in the number of students in a downturn.
* Now – we have a deceleration in population growth
  + Cannot raise fees
  + Immigrant community has grown and need more financial assistance
  + Endowment has added risk to its portfolio due to the addition in illiquid assets and rest of balance sheet is not as strong.
* Pensions 10-11 years ago – The CIO and Treasury were usually not the same person
  + However, there has been a strain on the balance sheet and these two different people (CIO & Treasurer) may not understand where all pressure points lie.

**Anurag Pandit** – ALSAC St. Jude Children Research Hospital

* LDI – has been the source of big challenges
* The low rate environment has been challenging
* Current bond yield is at 2.5% and inflation 2% -> therefore, you have to find different ways to diversify portfolio
  + Insurance linked securities etc. because bonds wont’ do it for the long-term for them
  + Fiscal stimulus came into the market and inflation should have happened in the market last year
  + Could we be in low rate environment going forward - Structural change?
* Going back to 6.7% rates looks really hard, from here

***DC plans?***

**Thomas Foster** – Pinnacle West Capital

* DB closed and DC ↑
  + Attract and retain employees – DC plan is now the vehicle and have implemented auto enroll and aut0 escalation
* But in the end of the day has enough been accumulated and what is process to de-accumulate or convert this in retirement.
* Don’t think annuities are the answer
  + There is a lot of risk in choosing provider, but they remain an expensive option.
* Deferred annuity @80 -> doesn’t sell
* Need to build a vehicle that takes a certain % or certain $ amount or calculate how much needed and how long funds are needed for and how draw down process should work.

**Erin Archer** – DePaul University

* You need very different service providers than those for the existing pension plan management
* Higher education institutions have been dominated by annuities from beginning
* Have significant issues with it
  + Not good at accumulating money
  + Pay relatively high fees
  + Underperform a 70/30 mix portfolio
* Average participant doesn’t understand that if you want all your money right away at retirement, you are charged 10.5% as opposed to a draw down over 10 years.
  + Need a lot more education
* 1 size fits all annuity for entire population doesn’t work

***Active vs. Passive***

**Ronald Thomson** – Alcoa Corporation

* Good public listed infrastructure fund needed
* Believe in active management but conflicted
* Glide path over 5-7-year horizon -> active is tough
* Alcoa -> Plan is active overall, but money has been moved to LDI
* Top-down strategies don’t work for him and can’t sell it internally
* Will be using longer duration bonds in the future

**Anurag Pandit** – ALSAC St. Jude Children Research Hospital

* Risk of unknown unknowns
  + Once tide goes in other direction there will be things that become apparent
  + Underfunded social security
  + $1.5T student loans
  + All tipping points -> could happen
* Structural: LT implications for margins and profitability
  + Belief that China used capitalism for state -> has big effect on psyche -> putting capital to work -> Do you want to have capital allocated to China?
  + 17 EM that are going to have collections today
  + Wage compression
  + Worry about LT structural issues with trade

***Retirement plan $ DB -> DC***

**Where things going over next 10 years**

**Thomas Foster** – Pinnacle West Capital

* There will be seat change and there are fundamental things driving this
* Risk to plan sponsor (at least corporate plan sponsors) and also at Endowments and foundations and Universities
  + How take advantage and go down these paths
  + Fee compression -> will lead to consolidation, which we are already seeing
  + ↓ Jobs
* Plan sponsor -> LDI ↑
* DC – growing market-> need good managers and diversified products
* Retirement income vehicle is required.

**Erin Archer** – DePaul University

* **Trends in Endowments and foundations, and risks?**
* Overall ↑pressure to keep up with the Jones and look more like Harvard even if timing is not right -> therefore we have seen a pressure and an ↑illiquids etc. and an ↑ use of OCIO
* Treasury symposium of colleges
  + Some de-risking of operating balance sheet but ↑ leverage in endowment space with ↑ illiquids
* Quite a lot of general pressure
* Need a stream of cash flows to pay for student’s fees, professor’s research etc.
* University Endowments ->accounts for 30% of operating costs. It’s not play money and there is an ↑ pressure to ↑ returns and contribute more

***ESG – hot topic – thoughts?***

**Ronald Thomson** – Alcoa Corporation

* Is this a real opportunity to differentiate yourself?
* Where to draw the line? Don’t know
* How monitor it? Don’t know
* Fiduciary implications? Don’t know
* It is an evolving area
* Incorporate ESG issues then put into your quality check and work into your conversations.
* ESG will become more and more mainstream

**Anurag Pandit** – ALSAC St. Jude Children Research Hospital

* EM represent good source of returns going forward
* Great implications for growth opportunity and EM is also the greatest area of population growth
* Don’t know how technology is going to evolve -> always underestimated this
* If interest rates remain steady between 3-5% then it is conceivable that we are underestimating equity multiples
* If low rate environment stays low, it will edge up – steady improvement is positive

**Breakout Session Track 2: Alternatives**

**Alternative Investment Panel 20/20**

**Moderator:**

**Harshal Shah, CFA | Senior Vice President| Callan**

**Speakers:**

**Kirill Buzinov | Associate, Absolute Returns | Perella Weinberg Partners**

**Mark Cagwin, CFA, CPA | System Director, Treasury & Investments | SSM Health Care Corporation**

**Troy Searless, CFA | Co-Chief Investment Officer | Federated Management Services**

**Trevor Williams, CFA, CAIA | Managing Director, Portfolio Manager | Penn Mutual Asset Management**

**Intro of all backgrounds, entity, role of alternatives in each of their portfolios**

(MC) Interesting time, looking at all types of alts at the moment, moving to investing by purpose vs by asset class.  Focus on strategies with specific characteristics vs looking at real assets as a class. He is also working to educate his constituents

(KB) We are a typical endowment model with a very long-time frame.

(TW) Our approach is an asset/liability approach due to our insurance company framework.

(TS) our target is 30% alts, and we prefer a yield component to our alts.  Private real estate, private equity, thru funds and direct, taxes an issue due to family office setup.

(TS) Looking to build out real asset’s component

(HS) Are there specific constraints that might affect or limit your works in alternatives.

(MC) Liquidity important as I have an operating business fund setup. Also have to deal with rating agencies, they demand 200 days of working cash to be on hand. Forces them to take less risk than they want to or what would normally be seen as an endowment model. Essentially, we are a HF as we can borrow lower than we can invest right now.

(TW) Our insurance company operates under risk-based capital guidelines. Affects what we look at as high returning and lower risk alts all take the same risk-based capital hit. It’s an artificial constraint.

(KB) Our clients are universities, and we customize everything for them – they have their own spending assumption hurdles.

(HS) How are you positioned given what you have just said?

(TS) seems like we are late cycle – we are more defensive, not taking big tactical bets, happy to give up some of upside for protection. Trying to be humbler on what to expect

(KB) we agree, see lots of risks, HF’s there to reduce risk, reducing equity long short and leaning toward credit and arbitrage strategies

(MC) we want to be a liquidity provider to a strategy, ESG an issue with us as well.  Looking for positively impacting infrastructure

(TW) we are adjusting expectations as well, litigation finance, royalties, mortgage underwriting, life settlements

(MC) what happens if a downturn in our business happens coincidently with a downturn in our investments, we can’t withstand a double whammy.

**Breakout Session Track 3: Professional Development**

**I Am Not Throwing Away My Shot- Alexander Hamilton (The Musical)**

**Moderator:**

**Michael Gillis | Vice President & Director, Institutional Relationships| TD Greystone Asset Management**

**Speakers:**

**Tim McAvoy | Client & Consultant Relations | Coho Partners**

**Lori McEvoy | Managing Director, Global Head of Distribution | Jennison Associates**

**Matt Pawlak | Vice President | Dimensional Fund Advisors**

* 9 seconds of body language to establish trust, non-threatening energy = encourages confirmation bias
* Next 90 seconds need to answer 3 things:
  + What’s in it for me (WIIFM)
  + Continuing that trust (TLC) - Trust, Likability, Confidence
  + Winning Hearts & Minds - emotionally engaged with me
* All to improve your shot at winning business.  Tell your audience what they’re going to get right away
* First 9 minutes:
  + Re-engage
  + Interest
  + Attention
* How?  1 - Ask rhetorical question - brain immediately attempts to answer it, re-engages you in the conversation.  2 - create movement.  3 - Shift between speakers, ask panelists a question
* TIM: First 9 seconds:
  + Cannot win your final in those first 9 seconds, but you CAN lose it!
  + First, BREATHE
  + First impression - the smile is open, shake hands before you sit down.  Building chemistry and trust.  Begins the moment you walk into the room.
* LORI:
  + The Final begins well before the actual meeting date.  Engagement with the consultant, plan, trustees well before.  Competitive knowledge and all the tools at our disposal to uncover the reason for this search or final, and how you can emphasize your capabilities (social media, competitive data).  Putting together the prep pack.
* Knowing where the anxieties and fears.  Knowing the funding status.  What is going on with the client’s mindset that is driving the decision making besides what we’re offering
* MATT: Winning the audience in those first few seconds?
  + Front end homework
  + Identify the characters involved.  Get
  + Where are they from?  Where do they live now?  Where did they go to school?  Birth order?  (Developing a sketch on what this person to better understand how their potential behavior)
  + LinkedIn is your best friend.  Get the Premium/Business level.
* First 90 seconds:
* Making them feel at home, setting the agenda and making sure it meets their needs, knowing their travel details, make sure they know the facilities.  It’s a Check-In.  Ask if it’s ppl to proceed as planned.
* Empathy - more difficult but necessary to create. Dorothy Lang’s “The Migrant Mother” - assume the people on the other side of the table have no idea what you’re talking about - you need to connect with the HR person
* Changing nature of Finals presentations - fewer and fewer.  Shadow searches.  It’s a cumulative Finals presentation over the life of the relationship.
* Opening the meeting: set the table, verifying, asking if anything in addition.  Goal is to get the audience to communicate and share.  Shows you’ve done your homework, empathy in the sense you want to hear from them, and if they share some information, those are nuggets of gold that you can reference in your presentation something they’ve said, which tells them you’ve been listening.  The more you can find out about them and listen to them, the more you separate yourself
* Re-engage:
  + Pay attention to body language (arms crossed, leaning in)
* BODY LANGUAGE MYTH: Arms crossed on its own is not a negative signal.  More than likely it’s a self-soothing gesture (hugging ourselves), or we’re comfortable, or we’re cold!
* IQ only accounts for 25% of their success.  Most of them end up working for someone with a higher EQ.
* Maintaining attention -
  + Lobbying a question out there, checking in if there are any questions, need more details, etc.
  + Ask for a pause.  Make them feel like it’s their meeting
  + Pre-planned pauses in between major segments of the presentation - part of the prep with the PM
* Have cues with the PM to signal wrapping it up (i.e. turn the page)
* Q&A:
  + The Art of Q&A:  don’t pretend to have the answer if you don’t.  You don’t do that because you’re a PROFESSIONAL.  Don’t make shit up.
  + Journey not a destination - keep learning
  + Simplicity - not dumbing down, just make things uncomplicated.  Explain your process to a 12yr old. No jargon or buzzwords.
  + TLC - business is won or loss based on Trust, Likability, Confidence
  + ATFG - Answer the \_\_ Question.  Shortest answer first - Yes or No.
    - Redirecting the PM: check in with the audience and ask if we answered the question
  + Q&A is presentation Duct Tape: Fills any gaps, handles objections, improves delivery.
  + Quarterly update - try to keep prepared comments short (10-15 minutes), leave the rest for Q&A
    - Get the overall story, talk to the whole not the parts, then open to Q&A to allow the audience to direct the conversation.
  + Q&A allows you and PM to be more themselves, authentic, their normal voice vs acting as a presenter.
  + Secrets:
    - Prepare talking points, but don’t create a slide for every point
    - Good answers are tight - Yes or No, concise, ask if answered question for chance to elaborate if needed
    - Take questions at any time - that’s what matters to them
  + Encouraging questions:
    - Pause
    - Plant - can’t always plant, but instead you can say “when doing these presentations, we are often asked...” and plant it yourself
    - Positive - smile!  But never say “Good question” - implies other questions are not.  Becomes disingenuous.
* How do you circle back to the nuggets you gather at the beginning without sounding manufactured?
  + If it’s obvious or is a stretch, don’t use it
  + Only use ones that would be appropriate, don’t force it
* \*\* Create and keep an FAQ document \*\* for internal and external use - a running list of questions asked in meetings with approved answers
* KEEP THE ANSWERS SHORT, not 5-10 minutes.  Creates a disincentive to ask any more questions.  Need good candor with co-presenter.  Touch them on the arm as a signal, “we can give short answers, as well...”
* Finals over the phone advice
  + Pausing is critical when you can’t read body language.  Measure time between responses.
  + Advantage: can’t see you give the signals to PM
  + Be careful with the Mute button - sometimes the other end of the line can tell

**Outsourced CIO, The Next Chapter**

**Moderator:**

**Chris Paolella | Managing Director, OCIO| Invesco**

**Amanda Tepper | Chief Executive Officer | Chestnut Advisory Group**

**Speakers:**

**Stephen Beinhacker, CFA | Managing Director, Global Head of Manager Research | SEI**

**Andrew Junkin, CFA, CAIA| President, Wilshire Consulting | Wilshire Associates**

**David Kelly, CFA, FIA, FSA | Partner, Chief Investment Officer for North America | Aon**

*AT – OCIO has been growing very quickly in recent years. Where is this coming from? Why is it growing so fast?*

SB – SEI has been doing OCIO since 1983. Today’s trend is that it will likely grow high single digits. CIO magazine reported that 36% of plans are outsourced today. There is still opportunity in DC.

AJ – Private wealth management is already OCIO-like. We see big growth in model investing, and there is overseas appetite for growth, particularly in the UK.

*AT – Is OCIO cannibalizing the industry?*

AJ – Yes. Public funds are not growing, Corporate DB is also shrinking. The DC market is growing, albeit with lower fees. E&F not really growing much.

DK – The Pension Protection Act of 2006 made the world more complex. Corporate America is sticking to what they do well and outsourcing what they don’t do well. In 2009, there were about $1bb in OCIO assets, $250 billion today.

*CP – Will public funds be adopters?*

AJ – The sweet spot here is plans from $100mm to $1bb. Governance issues – is this a core strength? I think its early innings here. Corporate plans are now going out for re-bid, while public funds that are adopting are doing it for the first time.

SB – Public plans have on average 24 people on staff. Corporates is 3, and E&F is 2. For public funds, firing people can be politically difficult to do. 13% of public funds are outsourced – smaller towns are moving in this direction. I will take a change of the political landscape.

*AT – With OCIO, cost is not a primary reason to do it. All in, prices don’t go down with OCIO. The main cause cited today is better governance and oversight.*

RI – Municipalities – Police and Fire is the low hanging fruit. Some are paying a 50 bp trail from their existing broker who they hired 25 years ago. Midsized plans also will adopt more, but large plans are actually insourcing rather than outsourcing.

*CP – What is the best way for salespeople to engage?*

SB – It’s more complicated, there are more gatekeepers, and an extra layer to get through to the Research Team. You should go where you have the most value-add, thought leadership and solutions are important – be a trusted partner. Cover both ends of the channel, and if you are seen as a strategic partner, when there are new opportunities, you will be first.

RI – Call the CAO, you need to understand their business. Buy into solutions mentality, and how you can modify your strategy to fit their business and clients.

AJ – It depends on the nature of the firm you are calling. If the firm is 100% OCIO, your approach will be different. At Wilshire, Manager Research, Consultant Interaction – bring unique solutions to the table, and it needs to be different.

*AT – Manager selection – what distinguishes managers?*

RI – Know what they are thinking, if for example they want liquid alts and income, some really don’t need daily liquidity other than stocks and bonds.

AJ – Partnership, capacity, fees. It’s easier for managers with scale. Nobody wants 100 relationships, you need scalability.

*CP – For a midsized manager, is it more difficult? Are the big going to get bigger?*

SB – If the OCIO grows and needs new products, you can grow along with them. They need capacity, but still need ‘best of breed’. Smaller and mid-sized firms have viability concerns.

RI – Small managers must be niche-oriented. For mid-sized, if the strategy is viable, whether it is scalable or not, they will include it.

AJ – The size of the firm doesn’t matter – do you have something to bring to the table?

*AT – How important are fees? Both with managers and your fees.*

SB – We’re a public company and need middle ground. Both the firm and the mangers are running a business. By the third meeting, they want to know if they can do business. With OCIO, transparency goes up. SEI shows the aggregate due to NDAs. It is getting more granular as the market becomes more competitive.

RI – We focus on the end fee. We are not looking to be Costco. We compete more on risk management and execution, not so much price.

*CP – How do you compete with each other / differentiate?*

SB – The client experience is a big factor. There are lots of infrastructure demands, performance is not the only issue.

*AT – Are there GIPS compliance OCIOs? How about style boxes?*

AJ – GIPS compliance is possible, it’s a technology issue, and there is lots of footnoting.

RI – CITs are GIPS compliant, which are helpful.

*CP – Where do you see the industry five years from now?*

AJ – The trend will continue, due largely to governance issues. Lines will blur, there will be partial discretion, insourcing and outsourcing sleeves of funds.

RI – The industry will continue accelerating. The business model works, clients meet their objectives.

SB – There is still growth, although in some areas not as much. As OCIOs rebid, it becomes more competitive.

*CP – Will there be more convergence / consolidation of OCIO firms?*

AJ – A lot of that has already happened.

RI – Two worlds have collided. Asset managers are now running searches for OCIO.

*CP – Will OCIO see a similar rise in model based portfolio management?*

AJ – Yes, we are seeing this. In OCIO it is similar though not identical.

RI – Yes, this is a big growth area, especially in the RIA channel.

*CP – What happens in a 2008 scenario?*

RI – Our clients look at their funding ratios, not just rate of return. In December, when the market went down, we got zero client panic calls.

*AT – What are the capacity constraints to be aware of?*

SB – Managers decide to allocate at different fee levels, it’s a negotiated process. You don’t want too much of a percentage of a firm’s assets, as you have business concentration risk.

**Concurrent Breakout Session Track 1: Traditional Investments**

**ESG Investing: Measuring Impact**

**Moderator:**

**Dr. Mariela Vargova | Senior Vice President & Senior Sustainability & Impact Analyst| Rockefeller Capital Management**

**Speakers:**

**Meredith Jones | Founder, MJ Alternative Investment Research Partner, Global Head of Responsible Investing & Head of Emerging & Diverse Manager Research | Aon Hewitt**

**Time Kavanaugh | Director of Investments | Mercy Investment Services**

**Colleen Smiley | Principal, Assistant Director of Public Markets Manager Research | Meketa Investment Group**

The evolution of the ESG/SRI/Impact landscape continues. Assets are increasingly being directed toward sustainable

investments. Hear from industry leaders on how they view the landscape and how they have incorporated those

views into their businesses. You will also learn about challenges that each industry leader has faced throughout this

process. Discussion topics will include:

• Obtaining standardized ESG data

• Incorporating views on the 17 SDG’s

• Impact of millennials on the ESG conversation

• How will managers be measured?

• How have you incorporated ESG factors into your decision-making process?

• What are some of the challenges you have faced as you’ve worked through incorporating sustainability?

MV – Paris accord will cost $12 billion to implement. Investment in renewable energy and healthcare, younger generation will establish and grow strategy.

MJ – Todays crowd today is indicative of growth and interest ESG investments

* + Aon – ESG investing, no values-based component. Incorporation of Material Non-financial information. In US, growth is in ESG incorporation

TV - Mercy Investment – only client is Sisters of Mercy. Not related to Mercy Health (also in St Louis). Sisters have been SRI for over 25 years.

* + ESG Investors group, 1) ESG Aware, not explicit, but aware of what’s going on. 2) ESG integrated. Analysis incorporated in investment process (Majority of managers in group 2). 3) Best in Class – Integrated at security level and fundamental investment process, comes from top of house. Indicative of the views of the organization. 4) Thematic funds.

CS – Meketa for 25 years, majority on FI side. Meketa views ESG on spectrum – SRI – ESG Integration – Impact.

When clients say they want ESG, really need to dig in to find out what they really mean.

MV – What types of clients are driving the growth of ESG investments

MJ – usually a stake holder that is driving ESG. For DC, demographics of the workforce, millennials, women (control 53% of wealth in country). DC plans receive request from investors to have more options. E&F, ESG more core to what they do. For DB, it’s usually driven by a trustee who asks if we should be looking into ESG.

CS – Meketa solidified and formalized ESG efforts when they lost a West coast Public plan client because Meketa didn’t have an established capability. Also seen some interest from DC plans, multiple funds, just not one option.

* ESG investment added 5 years ago
* Added ESG score to research process
* No separate ESG research group. New grads and younger researchers are proactively asking how they can add to the ESG research process.

MJ - AON doesn’t have separate ESG research group. Same research analysts are applying an ESG score.

MV – How is Mercy investing in ESG

TK – Equities, ESG Integration or SRI. Outside of equities, Thematic or Impact investments.

MH – Aon started on Public Equity side as it is more straight forward and more information available. Real Estate – after energy, # one user of fossil fuels. HF’s are laggards.

MV – is ESG a fashion trend, or here to stay?

CS – Interest on public side in integrated ESG strategy. Private side – Real estate, agreements with developers.

TK – Sisters looking at fossil fuel divestment. Mercy has an environmental impact PE fund. Agriculture, EME.

MJ – bulk of research shows huge benefit investment with companies with strong Governance. Next is the E. Some investors looking at divestment. Third is the S. Not a strong correlation between Social aspect and financial returns.

MV – How do you deal with inconsistency of ESG data

* MJ - Managers need to do more than just look at MSCI or Sustainalytics. Providers data is too inconsistent across providers. Provide examples of decisions made because of ESG data or insights.
* CS – Looking for a mosaic, Need more than data points from providers. Diversity and inclusion – need to hold that lens to your own company.
  + Mstar mutual fund ratings – normal distribution. Sometimes has to do with benchmark – e.g., mid-cap is a higher rated index

MJ – ESG momentum, a good predicator of future performance.

TK – Managers need to be doing something in house to understand the data.

MV – SDG’s. Sustainable Development Goals - Are they changing the way managers do ESG investing?

MJ – SDG’s fall more under the impact umbrella. E&F’s using SDG’s to align grant making. Having seen mandates that incorporated of SDG’s is important

CS – US Lagging behind incorporating SDG’s

MJ – Department of Labor has set the tone. Have to be cautious. EU totally different set of government guidelines.

TK – Seen a proliferation of SDG’s in pitchbooks. Managers need to explain how decision ties to goals. SDG is a good framing tool. Eventually they will be adopted.

MV – Active stewardship. Mercy a leader in active engagement.

TK – Advocacy portfolios, companies we want to do engagement with. Mercy Staff - 8 of 20 employees focus on the engagement. Mercy strongly prefers strategies that incorporate engagement. ESG or not, analysts should be engaging with management as part of fundamental analysis process.

MJ – we do ask managers how they vote. If voting with management 90% of time, probably green washing. Also look at engagement on PE side.

**Audience Questions -** Sustainable Growth Advisors – ESG Fund Carve outs of existing strategies OK?

CS – depth of ESG within portfolio more important than if used across all strategies

JK – If in DNA, a data point, but not a deal breaker. Firms need to start somewhere

Recommendations to managers

MJ - it will be table safe. If you haven’t started, then start.

CS - authenticity matters. In 10 years, won’t be separate session at conference.

**Concurrent Breakout Session Track 2: Alternatives**

**Private Debt and Private Equity- How Do They Fit into a Plan and What are Investors Looking For?**

**Moderator:**

**Dimitrios Stathopoulos | Senior Managing Director| Nuveen**

**Speakers:**

**Turner Bailey | Principal | Mercer**

**Kevin Keneally | Deputy Chief Investment Officer| General Retirement System of the City of Detroit**

**Francois Otieno | Director of Credit Research | Segal Marco Advisors**

**Francois Otieno- Director of Credit Research, Segal Marco Advisors**

* 2017 - $100 bn raised
* 2018 – 30% less, about 7 bn
* Expect down trend to continue
* BDC – preferred access is GP / LP structure. private vs public BDCs, SM has an aversion to public ones. private BDC, find them attractive because 1) circumvent some ubti issues you may have in draw down vehicle, free option to go public in five years.
* Return expectation – 10-12 net IRR. two primary ways – leverage risk or take credit risk. Segal Marco agnostic to which approach. Before, generally sponsor backed. Now more flavors, non-sponsor backed – find attractive as complement, but probably not as an entrée. Nons as second allocation.
* PD is single highest allocation idea right now. Generally, advocate 5% at plan level. Also reviewing securitized, maritime, specialty financing within private. Venture debt lending, too.
* Attractive manager – track record in navigating down markets, managers who have workout expertise. teams together for long time (surprisingly not often found). At least 10 years.
* Mitigants to returns coming down: 20pct returns come from OIDs, seeing managers passing on those fees to LPs. 50-80%!!
* PD is a J curve mitigator
* Transparency around how management fees are calculated, some have sneaky ways to increase over time and hidden in the docs

**Turner Bailey – Principal, Mercer Private equity**

* When does it stop – peak of listed company to now is half. Tons trying to capitalize, early seed stage all the way to equity buyout or IPO.
* Amount of money coming into space cause for concern.
* 60% buyout, 30% venture and growth (like early stage, think VC round overvalued), 10% opportunistic, e.g. litigation finance, aviation, etc.
* Think return still there
* Like to see managers who have weathered the storm (track past 2008) and how partnerships survive
* Deployment across managers has been fast, make job harder because coming back with bigger fund sizes
* Pace of analysis for clients every 6-12 months
* Prefer lower end, middle market spectrum, like spin out groups, those that have weathered storms. tech may be a bit overblown
* Hard to find a slot given speed of how current managers are coming back.
* PE fees staying and increasing, some asking for 25-30 carry, but those are oversubscribed managers with long track.
* Co invest: look for process because move fast, to get the first fall. Mostly delegated clients...
* Maritime, aviation, rail, some ESG PD!!
* Spent time on European NPL and PD, but not as much experience in managing in down market, really only 20 years since below IG market developed in Europe. US more advanced.

**Kevin Kenneally – Deputy Chief Investment Officer, General Retirement System of the City of Detroit**

* PE – been investing for over 15 years. graduated from fof to direct 10+ years ago.
* City of Detroit maintains 10% target to PE
* Existing – vanilla strategies, traditional buyouts, venture, some secondaries to ramp exposure up
* Recently / past 2 years – beyond traditional, last year some sector specific funds, this year allocated to special sits and co-investment funds. both provide most “downside” protection
* 2019 – search for managers with non-traditional approaches that have flexible mandates, early stage venture, European or Asian
* PD side – been 11 years. First was opportunistic situation with PIMCO, first disco fund (domestic mortgages), 3-5 year term, returned all capital in 2.5 years, very low risk, mid teen net returns, rolled to disco 2 & 3 (support credit crisis in PIGS), good start to PD. Afterward, able to find attractive opportunistic funds post Volcker rules, not traditional HF managers, but smaller private managers to take advantage of banks getting stuff of B/S. Now 15% to opp credit / private debt. Right now, direct lending and bank loans (but with $$ coming in, need more niche players, who have edge on sourcing side, or can underwrite an industry better than peers). Leaving dry powder for a distressed cycle.
* Like managers that are 1st lien owner, covenants heavy, not looking to lever up or go lower on the debt stack to get a couple 100 bps. need strong in-house underwriting teams.
* Overweight to public equities, use that to fund PE commitments
* Trustees love seeing the interest being thrown off those funds. Because of early prepays deals paying off in 18 months, not really that illiquid
* Unique: fee, if manager is consistently delivering, don’t really have problem with 2-3%, but some board members disagree. Haven’t seen diverse set of new proposed fee structure. Committee vs deployed, etc., need to break down to get fund approved, but philosophically don’t care
* NPL: if more distressed more hair, but if legit yes!!

**Concurrent Breakout Session Track 3: NextGen**

**CIO Magazine’s NextGen/40 Under Forty Award Recipients- Throughout the Years**

**Moderator:**

**Christa Maxwell, CFA, CIPM | Director of Business Development| Kennedy Capital Management, Inc.**

**Speakers:**

**Chad Myhre | Portfolio Manager | Missouri Public School & Education Employee Retirement Systems**

**Mark-André Saucier-Nadeau | Portfolio Manager, Global Equities | Caisse de dépôt et placement du Québec**

**Chad Mhyre-Missouri Public School & Education Employee Retirement Systems**

MOSERS, Callan before that, 350 bps of alpha covering hedge funds

Ran Long only as well, currently building a 2.5bn equity portfolio right now for the Teachers’ plan

Thought diversity — need to hire laterally to get an outside perspective

Plans that are consultant driven are limited.  Self-attribution bias works its way into the decision-making process. His process: boutique manager, alignment of interest in majority of liquid net worth in strategies, concentrate decision is ultimately his.

**Missouri teachers**

* 15bn domestic equity; 5bn PE; 5bn private credit; 20% in safe assets — treasury and TIPs.
* Verus is general consultant and help a bit with traditional; Townsend on RE; Pathway and Albourne on Alts
* View is they need to make consultants’ job easier
* Approach: time most precious asset; won’t take an hour with every manager but will take 10 minutes to review a pitch book.
* Story: stay across the table when talking to people
* Story: a manager shot over notes from a conference that covered a number of different panels; he found that particularly helpful.
* Story: any deep study would help as well (example consumer Staples)
* View: if you’re going to make a tactical shift in portfolio, need to be conscious of CAPE ratio and have a long-term justification for the decision you’re making. CAPE around 30 now a bit stretched; 18 close to FV.
* Equity risk premia has been around 450-800 basis points, so don’t need a huge premium for people to look at equity.
* Last 15 years you have not received a SC premium, hard to think you won’t receive it going forward next few years
* Small Cap is an area he really like; didn’t mention Intl / EM / Global.
* 2.5bn portfolio in public equity to try to generate alpha — what are your competitive advantages over your competitors? Likes sector specialist approach - concentrated and take long time horizon (you’re talking 10 or 15 names)
* Patterned with Russell investments on this to neutralize the sector exposures and then pairs that with 10-12 managers who have a long-time horizon to generate long term alpha
* Then you factor in fees — need to generate alpha beyond the actual fee schedule, so the returns don’t get wiped out by fees. 5 of them have 0 management fee all incentive fee. Looking for a performance-based fee.

**Mark-Andre Saucier-Nadeau | Portfolio Manager, Global Equities | Caisse de dépôt et placement du Québec**

Grad school. GS in New York.  Has helped rebuild the portfolio as he has worked on the global value fund.

Fund has undergone a ton of change in past 10 years after the crisis.  Managing dedicated pension money so have the luxury of being slightly longer term.

Launched their own global quality fund.  Next thing they’re working on is a global value fund, so they are building that in house.  Taking a contrarian approach within the plan.

Value fund is about 8bn.  Took more than 5 years to change the culture, also have external partners and he is trying to push cultural change within the organization.

Have put effort into gender equality but very few PMs female, still.

100bn in equity; 100bn in RE, PE, Infrastructure.  Have several external partners.  Example: when building the Global Quality fund, they developed internal portfolios and have stayed with the external managers often to run those portfolios.

Provided a lot of useful info on the companies they invest in....

Do use consultants but it’s specialized — don’t have a broad consultant relationship.

* Approach: learn how they work; learn how they think.  Once you have a discussion — follow up on that and don’t worry if he delegates to someone else to work on the projects.
* Bottom up at a portfolio level in the Value and Global Quality funds; try to diversify concentrations away from a concentration in certain sectors; doing a huge amount of bottom up work.
* ESG: every investment must go through ESG analysis more as a negative screen and evaluate performance.  Much more focused on environmental and social.

**Pension plan governance**

* Must make sure that the board is well educated on the long-time horizon of asset management... they are well conditioned at Teachers, but many plans are not as well educated and are very focused on shorter term performance.

**Challenges they’re facing**

* Marc: deploying 8bn in AUM that they have into the markets — market has been strong
* Chad: finding good managers — he has relied on network of other allocators to source ideas and does not want to sit on hands for too long.  Must be thoughtful and do the right thing but be thoughtful about how we do that.

**Advice to marketers**

* To continue relationship: be honest, be proactive — don’t want to hear bad news from the newspaper.
* If having a bad month, having a bad month.  They can bring the teams up to speed but make sure you’re proactive.

**Institutional Investment Consultants and Wealth Management: The Path of Convergence**

**Moderator:**

**Leonard Oremland | Managing Director, Head of Global Consultant Relations| OFI Global Asset Management**

**Speakers:**

**Joseph Cortese, III | Senior Consultant & OCIO Financial Institutions Practice Leader | DiMeo Schneider & Associates**

**Preston Dillard, CAIA | Director & Portfolio Manager, Strategic Advisory Group | Thompson, Siegel & Walmsley**

**David Hyman, CFA | Partner & US Wealth Manager Solutions Segment Leader | Mercer**

**Dennis Sabo, CFA | Partner, Portfolio | Edge Capital Group**

DH: Lead financial intermediaries’ business in the US. Dedicated to advancing investment capabilities of financial intermediaries. Looking to support firms that service the end retail investor. Small RIAs to large brokerage houses. Clients

JC: Practice lead for OCIO business at DiMeo Schneider. 85 billion in client assets for direct client business. Work with corporations, endowment, foundations, HNW and family offices. Asset allocation based on proprietary tools. In financial institutions practice, work with 30 firms representing $75 billion in AUM.

PD: Located in Richmond, VA. Manage $21 billion in assets. Equity, fixed income. Lead investment advisory services for clients. Manage about $2 billion in their group. 80% of the clients are top tier. They have a partnership with Mercer.

DS: Portfolio Manager. Manage money for HNW and families across the southeast and southwest. Manage about $4 billion in assets. Lower end $2 – 3 million to families over $1 billion. ETFs, fees, private equity, private credit and direct deals. Complexity varies by client base.

LO: Where do you see wealth management as your overall firm AUA?

DH: 10% of the overall client segment currently. Assets are increasing as advisors are advising clients to rollover their money from DC plans to IRA accounts. Increased complexity, fee pressure and low return environment has made it attractive for advisors and intermediaries to utilize Mercer.

JC: Many clients don’t know much about the differentiation between investments. They hired advisors for that. Differentiation of managers alone is not enough of a value add. Results are all that matters. Where is my time best spent? Getting new clients. More and more intermediary clients are looking to OCIO to help them scale their business.

JC: 4 verticals. Marketing and communication services are important. Most have no marketing and communication materials. Need to play good offense and defense. Most interest has been outside of the traditional markets – private equity and private debt. Opening up markets to them is a big value add and partnering with asset management firms to secure capacity in these strategies.

DH: How can we help them lowering their costs? Outsourcing or building a research team internally. Also, can they mitigate their risk. DOL rules were struck down, but SEC fiduciary rule coming. Being able to offer risk/return perspective and looking at costs are important.

LO: How did the advisors go through the search process?

PD: Used to have a closed system that was mostly proprietary. We chose Mercer as a way to shift gears away from a closed structure to one that was more open. Expand offering beyond just Thompson, Siegel & Walmsley. Boards that we work with on the institutional side also asked us to expand. Issued RFP, had three finalists and Mercer won. Advisors are in the relationship business. Clients want us to be there to answer the phone. Less about the relative game, more about the absolute return over the long-term.

DS: Use the term partnering, not outsourcing. All RIAs are labor and capital constrained. Trend to outsourcing will continue. Advisors need to focus on business development. How do we put our dollars to work in a better way and leverage spending capabilities? A few years ago, we led a search for hedge fund due diligence. Asked ourselves if we were doing it the right way. Found a partner on the hedge fund space for manager sourcing. Also did the same for liquid alternatives. Did site visits and went with DiMeo Schneider. February 1, 2019 engagement. Private investing no longer just for the mega investor. No longer allow advisors to “throw ideas over the research wall.” Instead, we have our guys run everything through DiMeo Schneider. Client want to know that there is a balance to keeping your identity, but also leveraging our OCIO partner to as a resource. We have a tactical overlay we supplement with DiMeo Schneider’s advice.

PD: Tax implications. Need to think about transitions and implications to mitigate client’s tax bill.

LO: Can you comment on Morningstar partnership with Mercer?

DH: Distribution of Mercer research to Morningstar helps smaller intermediary clients with examining more institutional quality investments. A lot of our clients are not advertising that Mercer is working with them.

JC: Happy to play a more behind the scenes role. Where you may need to bring DSA into the conversation is during complex issues like vendor relationships – reporting, custodians, asset managers. Important to understand how this will all evolve. Connections are more important than ever.

DH: Convergence of asset managers, consultants and others building model portfolios.

CQ: How do you avoid competing with your own clients for business?

JC: The market is so fragmented and diverse. Only two instances where DSA has run into it. Want to be good partners.

CQ: Topic of taxes came up. How is Mercer embracing the new research initiative for municipals and other tax advantaged products?

DH: Need to make sure that you’re interacting with Deb Clarke and other researchers to get on their agenda. Process that is evolving over time.

CQ: Some of the large clients have internal research teams. How do you navigate?

DH: If they already have a large research team, we try to find areas where they might need help – ESG, private markets debt, liquid alternatives, etc.

LO: What would you tell asset managers to engage your teams?

JC: DSA has a research calendar that is updated every six months. Telegraph to managers when those Asset Class Reviews are coming up. Need to uncover areas where you might be a resource. Managers that are viewed as a trusted advisor are valued.

DH: Do your homework. Look at the underlying portfolios. If your prospect is following a DFA value portfolio, probably best to lead with growth portfolios to supplement their offering.

DS: Asking managers to reach out to DiMeo Schneider for new strategies not currently rated. How is firm operating for funds outside of the recommended list?

PD: We have a select list. Use a ton of time diving into that list. As the question of our managers, “are they good people?” Think about how the advisor community develops business. It is different from the institutional side of the business. Spend a lot of time with us and get to know us.

CQ: How is your content developing over time?

JC: We are delivering 2 – 3 pieces of content per week to our end-clients. Leverage managers to help with content and thought leadership.

**Concurrent Breakout Sessions-Meet the Allocators Parts I and II**

**Session 1: Moving Forward in Healthcare**

**Moderator:**

**Tonja Truesdell |Regional Director, Institutional Group| Thornburg Investment Management**

**Speakers:**

**Michael Horst, CFA, CAIA| Senior Director, Investment Management| Kaleida Health**

**Dina Richard| Chief Investment Officer | Trinity Health**

**James Wesner, CFA | Managing Partner | Marquette Associates**

**Gary Wyniemko, CFA | Principal, Senior Consultant | NEPC**

**Background** on healthcare systems: Over 300 Plans, $1.5T AUM. Most Plans have multiple pools including operating pool, Foundation, Insurance, DB Retirement plan, Reserve. Assets are taxable and non-taxable, depending on the pool. U.S. healthcare costs are 3x per person than in Japan and growing. Issues impacting: Increase in interest rates impact borrowing costs, the continual measures proposed to repeal ACA, vertical integration like CVS-Aetna, and demand for digital healthcare.

DR: Trinity Health has over $20B AUM and is a not for profit Catholic, mission aligned system. They are active in spending in the community which may be a factor for investments.

JW: Marquette healthcare clients are very diverse, and the space is more heterogenous than covering a more homogenous group of clients.

MH: Kaleida Health has $1B AUM, 3 pools: a DB plan funded in the mid-80s%, a Trust which combines a Foundation and Operating Pool. He was the first investment professional on staff and revamped the asset allocation with a growth bias. The DB Plan is open and making $20mm contributions with 8% assumption. The goal is to fully fund the DB plan and implement glidepaths.

JW: Credit ratings of the organization need to be understood by marketers and are very important for the operating pools. Digging deep to understand implications to credit rating is imperative.

DR: Success is defined quantitatively. The Plan must meet cash flow needs, exceed the policy benchmark and healthcare peers. The peers are determined by a custom universe from their consultant Pavilion/Mercer. They have an AA Bond rating.

GW: He has been on both sides as a Plan Sponsor at Henry Ford health system and as a consultant now. Either way, begin by evaluating the goals and objectives of the Plan, as Kaleida recently has done.

ACA has benefited healthcare systems at the expense of insurers. If it reverses, major impacts on both sides. Repeal and Replace language seems to have died but there are no details provided by Republican leaders in healthcare policy options. Some systems ignore the noise, but others are more conservative and position in anticipation. It depends on many facts, often the credit rating.

DR: Hospitals in a great year made 3% from healthcare and look to their investment returns to supplement. Keeping in mind the AA credit rating, a percentage needs to remain in low/no risk investments to maintain rating but not all and more risk can often be taken. Increase privates because not need 100% liquidity but the Plan must scenario forecast for the perfect storm to ensure liquidity. Theme to cut managers to streamline the lineup and leverage managers across all pools. Differences: pension LDI will not be in the Operating pool. Also, it is hard to get into some hedge funds and private equity across all pools.

Handling of short-term liquidity is in different pools at different systems. At Trinity, it is part of the operating pool and the metric used is how many days cash on hand. With the short end interest rates increasing, this helps to get more. Contrasting to Kaleida who is not as involved in the short end of the curve.

NEPC published a paper on private markets for healthcare. Some niche ideas appeal to systems. Using an enterprise risk approach to evaluate the Plans showed that some could increase risk for desired increased return. Discussion on Venture Capitalist trends to partner with HC systems. Prefer VC who have been investing in HC for a while and who have innovation offices in place. This trend has been around 4-5 years. What alternative investments are in your plans? For Trinity, no increase for PE in the DB plans as they are closer to full funding but could take some illiquidity in their operating fund and they are evaluating for that pool. Still, education is needed even though PE is in the DB Plan. For Kaleida, real assets are a focus and they invested in a few Oil Investments when Oil was low. They have delayed implementing for real estate as it appeared frothy, but it does continue to rise.

ESG? NEPC created an internal ESG team for Philanthropic clients. Generally, the E/F clients led, and healthcare followed. Changes from screen exclusions which was first generation. Now, see a desire for ESG to do good and there has been an increase in interest and the conversation, not implementation yet; however, NEPC won some newer mandates to analyze portfolios. Catholic healthcare organizations were early with ESG specially with exclusions and are now proactive with private equity and hedge funds.

**Concurrent Breakout Sessions-Meet the Allocators Parts I and II**

**Session 2: Exploring the Impact of a Plan’s Size and Investment Policy**

**Moderator:**

**Don Stracke, CFA, CAIA |Senior Consultant| NEPC**

**Speakers:**

**TJ Carlson | Chief Investment Officer | Texas Municipal Retirement System**

**Karl Polen| Chief Investment Officer| Arizona State Retirement System**

**Mark Steed | Chief Investment Officer | Arizona Public Safety Personnel Retirement System**

Three institutional investors, representing large, medium, and smaller plans pursue very different strategies. These differentiated strategies are driven by their size, their specific goals, and their investment philosophies. While we will explore their differences, their investment strategies have many common themes. From the use of active vs. passive, the use of alternatives, smart beta strategies, and credit these investors will shed light on the rationale for their investment approach. Moderated by a seasoned pension plan consultant, this session will allow you to develop a better awareness of the unique situations each of these plans face.

**TJ Carlson, Texas Municipal**

* $30 billion plan made of up various municipalities in the state of Texas
* Currently 90% funded
* They have a target discount rate of 6.75%

**Asset Classes:**

* Alternatives: Currently Active and looking for ideas
* Global equity -
* Global Equity - Passive
* Non-Us Equity - 70% passive
* Us Equity - Passive
* Fixed Income - Passive

**Karl Polen, Arizona State Retirement System**

* $41B in total assets
* Target allocation:
* 50% Equity - 75% Passive/ 25% factor based (no active management)
* 20% Credit
* 20% Real Estate - All Active
* 10% Core bonds
* 80% of their manager relationships are either a separate accounts or partnerships of 1

**Mark Steed, Arizona Public Safety Personnel Retirement System**

* $10b plan
* Currently conducting an asset allocation study
* 60% of the portfolio is in equity
* 50% Public - almost all passive
* 50% Private - active
* 20% contractual income
* 20% Diversifying strategies

They rotate the team members every few years so that everyone covers all asset classes. The investment team has full discretions and does not bring investment ideas to the board.

* Target Return = 7.3%
* Use NEPC as consultant

***Question 1: What are you focusing on?***

**TJ Carlson, Texas Municipal**

* Increasing cash - currently at 2%
* Create custom tracking private market partnership and update the cashflows quarterly
* Doesn’t want to have to sell liquid assets in the downturn
* Looking at contingency vehicles in the event of a market downturn -
* They currently don’t have any assets in them but have them build out and ready to fund.
* Looking to identify managers that can do well now but can supercharge their portfolio during challenging times

**Mark Steed, Arizona Public Safety Personnel Retirement System**

* Rebalancing their allocations
* Board is restructuring the way that the investment team is reviewed used to be return focused but now is volatility focused
* Looking to add diversification without giving up return

**Karl Polen, Arizona State Retirement System**

* Getting more conservative with the implementation of their asset allocation
* Don’t see upside in rates
* Already in a low point and ready to rebalance when equities fall

***Question 2: Do you see changes from passive to active if markets change?***

**Mark Steed, Arizona Public Safety Personnel Retirement System**

* Need to identify managers and asset classes that they believe can produce higher returns for going active.
* They have had conversations with the board to discuss going active but no changes yet.
* Possibility of active in global
* They are currently active in China exposure

**TJ Carlson, Texas Municipal**

* Board doesn’t care how they make the 6.75% so it his discretion to go active or passive
* Just decided to increase some exposure to active global
* Not increase allocation to China
* NEPC’s perspective
* We are later in an economic cycle and active should work
* Global managers are very close to the benchmark and thus are not truly active

***Question 3: Thoughts on ESG investing?***

**TJ Carlson, Texas Municipal**

* Texas based - will do whatever the governing body tells them to do
* NEPC’s perspective
* Public funds - much less interest
* Location of the fund has a big effect on interest
* Every manager has a process around the G.  The S and E are more complicated

***Question 4: Thoughts on Equities?***

**Mark Steed, Arizona Public Safety Personnel Retirement System**

* Doesn’t’ think equities are a bad investment
* Harder to get to a number than it was 5 years ago
* Running 3% overweight

**TJ Carlson, Texas Municipal**

* 35.5% global equity
* 2.5% overweight US over non-US - it’s a drift - they like the drift
* 35% global public equity target

***Question 5: How do you combat Performance chasing behavior?***

**Karl Polen, Arizona State Retirement System**

* They are Aware of it and so don’t use 1,3,5,7,10-year periods. They run analytical tests on the data outputs which helps to combat performance chasing
* They want to see a 60% probably that the excess return will be positive and 90% that 3-year period will have excess return

**Mark Steed, Arizona Public Safety Personnel Retirement System**

* Look at rolling periods - how often is he going to be in front of board - look at 7-year periods

how many periods they outperform/under-perform

* Most top managers don’t underperform for 2 quarters in a row

**TJ Carlson, Texas Municipal**

* Board needs to agree to hire manager so supplying a lot of evidence that a manger will outperform is helpful.
* They have a 4-person risk and analytics team - have their own data warehouse.
* The team monitors every trade and they want to evaluate a manager hit rate, hold period, etc.
* They think it’s important to understand managers decisions and keep track of how many times managers are making mistakes

***Question 6: Thoughts on China?***

**Mark Steed, Arizona Public Safety Personnel Retirement System**

* Markets are open in China - half of his internal staff is from china

**Concurrent Breakout Sessions-Meet the Allocators Parts I and II**

**Session 3: Attention Pays- How to Drive Profitability, Productivity and Accountability for Sales Executives**

**Moderator:**

**Kurt Terrien |Managing Director, Institutional Sales| Clarkson Capital Partners**

**Speakers:**

**Neen James | Motivational Keynote Speaker| Neen James, Inc.**

Key points:

1. ***Be Unique:***  Always be yourself.  Don’t change who you.  However, know who you are and emphasize your best traits.  For example, Neen describes herself as the “Energizer Bunny”.  She says we should give ourselves a metaphor/caricature/nickname and “live it”.  One of my colleagues calls me the “Honey Badger”.
2. ***Pay Attention to People:***  Everyone wants to be seen and to be heard.  Listen with your eyes and look at people when they talk to you.  This will help you with clients, consultants and colleagues.
3. ***Attention Matrix Tool:***  Neen has a tool for being focused.  It’s not rocket science, but it will help you pay attention – see attached.

***OTHER: Tele-Coffee:***Set up a call with a client/contact … don’t meet face-to-face … call it a “Tele-Coffee” and for 15 minutes be focused on that person.

**Consultant Roundtables**

**Moderator:**

**Tasleem Jamal, CFA |Vice President, Head of Marketing & Client Services| Sprucegrove Investment Management Ltd.**

**Speakers:**

**William Beck| Vice President| Wilshire Associates**

**Roger Fenningdorf, CFA| Partner, Head of Manager Research | Rocaton Investment Advisors**

**Margaret McRae Hoy, CFA |Associate Director, Public Markets| Verus**

**Eric Huff, CFA, CAIA | Vice President, Manager Research | LCG Associates**

**Spencer Hunter | Consultant | RVK, Inc.**

**Russell Ivinjack | Senior Partner | Aon**

**Nat Kellogg, CFA | Director of Manager Search, Managing Partner | Marquette Associates**

**Jaco Meese, CFA | Consultant | Cardinal Investment Advisors**

**Colleen Smiley | Principal, Assistant Director of Public Markets Manager Research | Meketa Investment Group**

**Eric Thielscher, CFA | Global Head of Public Investments | Cambridge Associates**

**Greg Ungermand, CFA | Senior Vice President. DC Practice Leader | Callan**

**Cardinal Investment Advisors – Jacob Meese**

Key Points:

1. ***Tier 2 Regional Consultant:***  Cardinal is a tier 2 regional consultant with about $140 billion in AuA and 65 clients.  Clients are mostly insurance companies (75%) but they also have some corporate pensions and E&F/Healthcare.  They have 3 offices – St Louis, Chicago and Orlando.

1. ***Old-Style:***  Cardinal is an “Old Style” consultant where senior field consultants conduct research and they do NOT operate a buy list.  There are 11 senior partners who lead research.  Jake Meese is responsible for fixed income.  About 60% of their exposure is in core investment grade.
2. ***Research:***  Below are the key contacts:

***MANAGER RESEARCH CONTACTS BY ASSET CLASS***

1. Core Fixed Income – Mike Dziadus, Jake Meese
2. High Yield / Leveraged – Ann Wiesler, Danielle Natonson, Stephanie Hebron
3. International Fixed Income – Ed Jacobs
4. Convertibles and Preferred Equity – Keith Chambers
5. Domestic Equity – Keith Chambers, Laura Walker
6. Non-US Equity – Carolyn Carollo, Beth Landers
7. Infrastructure / MLPs – Jake Meese
8. Real Estate – John Lee
9. Hedge Funds – Danielle Natonson
10. Private Equity – Matt Padberg, Meghan Jones Infrastructure Debt – Marissa Lippmann Commodities – Matt Padberg

MORE DETAILS, AREAS OF CLIENT INTEREST/CONCERNS

* 37 dedicated employees. 11 equal partners also primary consultants, 5 non-partner consultants, performance analysts.
* Manager research cuts across, even some tenured performance analysts conduct research
* Additional yield / income for our insurance clients. e.g. private credit – insurance companies very regulated in portfolio allocations, 60-80% of assets are IG Fixed Income separate accounts. been difficult to keep up with expenses via IG last few years, had to expand to credit, started with bank loans, then private credit. last five years looking at direct lending, multi-asset strategies. always conscious of capital requirement. Private credit in LP – capital charge (same as PE, so need to ask what’s goal of investment, how it affects B/S)
* No buy list – start each search from scratch using public databases for quant. Quant is 50% of work. If not top quartile, won’t make it.
* Most search activities are due to T/O more so than performance. hot water – if you are supposed to perform well over x period and you don’t
* Recently, taxable clients are discussing their allocation to municipals given the new tax rate.

**Verus -  Margaret McRae Hoy (Maggie Hoy)**

* Leads fixed income MR
* 450 AUA, about $3bn OCIO
* Spending time on EMD (client interest), ESG and how they look at it. private markets team focus on private credit team. Francis Griffin focuses on private credit.
* EMD – blended approach, client decisions at the vehicle level, pick a location, and find vehicle that best executes that, vehicle that allows managers to pull the triggers on LC vs HC
* Buy list called the approved list. 10-15 managers.
* Search process – mostly consultant driven, fill out request. pull from approved list but changing approach – if know a manager well, will just pull it in.
* 3 offices - Seattle, El Secundo, San Fran
* DC business - not organized separately, not DC dedicated consultants
* Search activity - Alts, EM Debt, some replacements in Core/CorePlus, EM equities, Intl SC, but overall muted activity levels
* Private markets in San Fran office, including private debt. Different than Maggie’s team
* Research process - begins with asset class review, used to be monthly, not quarterly. Q1 - EMD Q2 - credit Q3 - core.coreplus and rate strategies Q4 - active currency and currency beta. Surveying the space, looking for trends, compared to what’s on the list and search activity/demand.
* Calendar not published anymore – just finished EMD and global fixed. Q1. 2-3rd will be everything credit., Q3 core and core plus long and short duration tips. Q4, active currency strategies. in other groups, global equity coming up, and EM coming up.

**Meketa – Colleen Smiley**

Merged with PCA, not acquisition. Complete, fully integrated. Benefit - still go to the Meketa research contacts, welcome to reach out to field consultants, but all research driven by staff. Portland Meketa team moved into PCA office, 30 ppl total now. Also, office in NYC in addition to Boston, Carlsbad CA, London, Miami

* PCA merger completed, no more PCA, merger not acquisition
* no one from PCA added to research team, David S added to IC for public markets, Coleen Bebe and \_\_ in Portland still spending time on HF.
* research really driven by research, not FC who will funnel you back to MR
* no approved list, approval means something has gone completely through IDD and ODD, approved for client investments, doesn’t mean money
* 500+ actively invested strategies across public markets
* TH still about 50% of client base. public funds with merger and growth big, some E&F, DC
* OCIO about $10 bn, no diff research process uses same time. Diff may be in types of strategies and portfolio construction.
* searches – global and int’l equities, int’l SC EM, HY and loans.
* ESG focus – first client in conference in five years in begin April exclusively on ESG
* 5th Emerging manager research day. 2x a year until run out of managers. not new, what’s new is formalizing the process. assets increased $2n last couple of years
* 82% of US client assets are indexed.
* London – exclusively research. David Smith is there, covers int’l and global. Tim Atkinson HY and Loans. Boston is US equities and HF< Chicago is David (Int’l global) SD is fixed income (everything Tim doesn’t cover), new person Mark to take over some of Colleen’s work.
* unconstrained FI does not philosophically fit into their model
* ESG – advise clients on options for implementation, but do want the clients are looking for
* Brandon ross? focusing more on clients now.

**LCG Eric Huff**

* 50 employees, 100 bn AUA
* Classic corp, 401 k, (1/3) 1/3 F&E, 1/3 taxable (NDT, FO, platforms)
* MR – hybrid, all consultants do research and face clients. All generalists
* Asset class teams that dig in and rotate (don’t disclose because change)
* Director of research Eric Quarterback. Be contact for managers
* Build each client portfolio from the bottom up. No approved ranking lists. Know who’s doing well. if search, cast wide net, more organic.
* Website for meetings – still preferred, but can also run it by Eric
* Own database plus eV. former initial screen, too.
* Non-discretionary clients very “discretionary” lean on them a lot therefore search time can be quick
* NDT – 50 to 60-year pools of money, highly regulated. historically long only fixed and equity. LCG advocates for alts
* No hard, fast rules on assets and track record
* SC always an area, across clients UW to international SC.
* Vehicle preference - agnostic, client-based preference, strategy-specific
* Average client size is $1B

**Callan Greg Ungerman**

* 20 years at Callan, SF office, started as analyst, joined from undergrad. Managed consulting group for number of years, also led DC practice
* Supporting internal and external, manage specialists that do admin work and record keeping
* Growth in DC business: Callan is hiring DC specialists. Feels exponential. Plans sponsors have done a good job, but the litigation headlines have helped the consulting business. Lot of value to be had looking at fees across the entire portfolio, not just asset management fees. Education, record keeping, products, etc.
* DC gets manager recommendations from research.
* No buy list. Client specific searches. Every client has different governance structure.
* On-site visits are crucial - 50 ppl dedicated to meeting with managers.
* Current AUA $2T, DC is $150-200B, Discretionary $20B
* Manager events - educational arm the Callan Institute
* Off shelf preference? Don’t always match up the demographics

**RVK – Spencer Hunter**

* Public and TH, smaller F&E, growing DC
* most each via public pensions, trends – not a lot of US active, more about portfolio construction around indexes.
* non-US – traditional searches with a bit of factor
* some clients if smaller just have ACWI, larger will have EAFE + EAFE sC + EM
* Fixed most activity, going to continue. separate out core plus, have a core plus a non-core / return seeking. IG credit, tsy agencies, then EMD / HY / PC / bank loan. i.e. capital preservation plus capital appreciation
* Everyone wants HF but no one wants to pay for them. HF – diversification vs return seeking
* PE slowed down but big allocators still finding deals that make sense. smaller ones don’t want fof but neither headache for direct
* Real estate more focused on income (4-5 yield) and don’t want to lock up to get 7-9 nor leverage
* PE – why small clients don’t want fof – fees, lack of understanding. small (<$200 mm). Mid-sized clients more opportunistic, like coinvest and secondary, benefited most from fof to direct. Mid-size to small use RVK to underwrite, larger clients use someone like HL
* Positive, neutral, negative, no “buy list”. searches – rFPs for every asset class, trend moving to short list even in public space. if the staff knows you and you are on short list, good outcome.
* Rather than doing finals show – clients want preapproved benches of managers in x asset class. if need it just pull from the bench and flip the switch. i.e. need to stay in front of public funds’ staff.

**Aon Hewitt – Russ Invinjack**

* <500 clients in US, 2 trillion in AUA, $!20 bn in OCIO, double no of clients globally. OCIO globally is over $150 bn. OCIO fastest growing, corporate dB and DC
* public markets – FI team, if 3-5 years, combo of fixed and liquid alts, maybe PE plus PC team. if past 5 years, def private equity / debt
* PD fund $350 mm closed quickly available to both private client and delegated clients.
* Global infrastructure - private markets with GPs, some co-investing. Allocate all market cap spectrum
* Search activity: 1-EM debt, some firms have struggled of late, additional or new allocations. 2-continuation on private debt — out of Townsend, combined to cover all private markets
* DC searches: ESG focused. Most plans are starting to add an option, mostly it will be indexed, contrary to the lineup consolidation, looking for low cost options to provide exposure. Other area is target date and custom target date
* OCIO platform needs? Always - liquid Alts, new ideas
* Traditional managers: most clients use Global Equity, and some US Small and Large Cap. Credit continues to grow. One credit fund north of $13B
* Negative view on equity managers - tough to add value, particularly in the US. Across the board skeptical, fundament and factor. Adding more factor-based managers to the Buy list
* Advocated Global Small Cap China-A? Working on it, educating colleagues and clients. Creating separate capital assumptions on China, educating on how to incorporate it within EM portfolios include it and exclude it. Several Buy rated China-A shares, but clients are getting up to speed on how it works in their allocation
* OCIO pitch - show preferred fees for the underlining managers
* Compare OCIO funds, GIPS compliant - 88 funds
* No interest in active currency strategies

**Rocaton – Roger Fenningdorf**

* Brought over 104% of the revenue, lost one client through the process but gained four between announcement and closing!
* GSAM has 95bn in OCIO, 5th largest, Rocaton late, got to $15 bn increasingly difficult to compete with likes of GSAM. Rocaton very successful with DC and DC delegated
* 225 of advisory AUA is DC, the 5th largest DC player in US, 15 DC clients
* 5 clients before where GSAM was the DB and Rocaton was the DC (oppo sides of finals tables all the time) all RFPs ask about discretionary capabilities in the future even if they are not ready for it yet
* Long only research effort centered in Norwalk, alts centered in NYC. All long only research will work through Rocaton process
* Coverage – biz as usual, will reconcile over the next few months, and will communicate to managers, taken care of extremes already (those with very negative views where they didn’t see eye to eye, handful to reconcile, but overall very aligned)
* Priority – capacity constrained strategies. those that are more appropriate for a DC plan, unless white label
* Fixed income – less traditional LDI, rather something that complements (more structured, customized), as things get fully funded. Diversifying strategy in the immunized strategy important, but still longer duration. Welcome some creativity on this

**Wilshire – Will Beck**

* Head up long only fixed income, anything but private markets
* HF used to be separate reporting line, now under one house
* OCIO relies on MR, but may do own research on something specific to them
* Trends – the more they have advisory clients (build products for them), the more important to have mutual fund options. their quarterly tilts can move big money
* Interaction – encourage them to generate an internal process. quicker if FC is pushing it.
* Equities – break analysts out by style, core / value. ESG is much easier on equities side than fixed income. impact is easier
* Emerging / diversity – always included in searches
* Funds side – focus on building model portfolios that are “doing good” vs “doing bad”
* More time on structured products, taxable monies, convos that are differentiated.
* Reach out to the researcher post evaluation for the Rating. Full transparency. Factual corrections allowed but don’t provide a rebuttal to their opinion
* Trends: ESG trying to figure out across the board, more impact side. Building more model based delivery for ESG managers. More niche focused. Not a lot of equity search activity, some EM Small. Some All Cap Global. Not a lot of money moving.

**Marquette – Nat Kellogg**

* Baltimore, Westchester PA, STL
* 200 bn AUA across 350 clients, avg size 400 mm median 125 mm
* 23 in research. 15 most senior are all 100% non-client facing. All researchers are in Chicago
* 4-step DD process – approved means can be put in search or portfolios. “analyst picks” up to six, bullpen to address vehicle availability. Analysts picks disseminated quarterly to the firm.
* If FC requests a search without specific manager request – get top six. if brings in someone, need to go through 4-step process
* 2 manager search committees that meet weekly, alt on Monday, traditional on Fridays, nat chairs both
* If inherit a manager – sends RFI, consulting and research determine what to do. make sure not inhering problems they can’t address.
* OCIO about $10 bn. Lots of rFPs ask about both advisory and OCIO, for MR it’s the cleanest way to implement ideas

**Cambridge – Eric Thielscher**

* What we look for - organization, team, alignment. Org - key individuals have proper foundation or saddled with noninvestment activities (managing the firm, client meetings, marketing, distractions). Alignment - performance evaluations, capacity considerations and discipline, partnership track, invested themselves.
* STRATEGY - core demand? Competitive edge?
* Feedback - not going to provide a lot, used to work on the buy side, was too reactive at his prior firm, not genuine. Other colleagues will provide more. Irrefutable details/facts will relay, but softer details wont
* Process - formal rating? Steps? - Due Diligence Process - research framework, then marry up to the top, endorsed strategies after decades of DD, and others after much earlier. Fee concessions to early movers. Building a mosaic. Can act quickly once all the pieces are there.
* Ratings - don’t have a Buy list, but well organized. Teams can do their own work, ongoing monitoring, but don’t require it.
* OCIO selection leverages centralized research but can also do their own work. Very well staffed, move quickly
* Key search areas - more Non-US b/c valuations and perceived inefficiencies. Global Ex-US, Global EM, China only, China A and H share offerings. Real assets steady demand. Dedicated department on public and private side.