

News and Analysis

Investors | Pension Plans

NYC pension plans to ease up on U.S. equity, high yield

Asset classes that could see a boost include hedge funds, short-term Treasury bonds, and non-U.S. developed equity, according to CIO Scott Evans.

Dietrich Knauth | 18 Apr 2018

The \$198bn **New York City Pension Plans** are rebalancing towards the extreme ends of their asset allocation ranges in response to market conditions, pulling away from high-priced U.S. equities and high-yield fixed income.

CIO **Scott Evans** said at the funds' common meeting on April 18 that the pension plans will become tactically overweight in some asset categories and underweight in some others, bracing for the impacts of rising interest rates and the potential for a decline in equity values. The pension plans will not exceed limits in the strategic asset allocation policy, and would come back to the pension plans' boards before doing so, he added.

Evans attributed the tactical shift to increasing volatility, the Trump administration's newly-aggressive trade policy, high equity valuations, and other factors. The pension plans, as long term investors, still believe in the

approved asset allocation for the long term, but even a less-than-nimble system like the city pension funds should be able to adjust to changing circumstances, he said.

"We're a big oil tanker, as a pension plan," Evans said. "We point that sucker northeast and we're headed to that destination, and it doesn't pay for us to fool with the settings that much unless it becomes very obvious in a calm period of time that there is the possibility of a very bad storm afoot. We're in one of those times now."

The pension plans intend to let the US equity, currently 33%, go below target, while boosting non-U.S. developed equity, currently at 21%.

"We expect to flirt with the top end of that range if we can do it," Evans said of non-U.S. developed market stocks.

In fixed income, the city pension funds also plan to go underweight in high yield fixed, maintain TIPS, and increase allocation to bank loans, Evans said. Although the pension funds recently did a search for high yield managers, they no longer plan to commit the full amount they originally intended through that search, he added. While the overall allocation to U.S. Treasury bonds will remain relatively static, the pension funds will shift their attention to shorter-term bonds that will be less impacted by changes in interest rates, Evans said.

In alternative assets, the pension funds don't plan to tinker with the timing or weighting of private equity, and will continue to spend opportunistically on real estate and infrastructure investments. Hedge funds, part of the Police and Firefighters pension plans, might see an increase.

"Generally speaking hedge funds returns will not be correlated with this, so we think we can let hedge funds run higher," Evans said. "Our hedge fund managers drive speed boats. If they see a wave coming, they can get out of the way and get back to shore. We don't have that luxury."

The tactical shifts were vetted in conversations with the city funds' five consultants, Evans said.

"Everybody agrees in principle with the direction that we're leaning with the portfolio," Evans said. "What we're doing is consistent with valuations in the short to medium term environment."

Despite the changes, there's no pressing need to change the longer-term strategic asset allocation, and the changes are within already-approved ranges, he said.

"We'll start to approach the edge, but if we think we'll go over it, we'll come back to you," Evans said "It will not fully protect us - we will lose money in a down market. But we'll lose a little less money than we would if we hadn't made these moves."

The pension funds' trustees also discussed their overall risk profile, and Chief Risk Officer **Miles Draycott** said that the pension funds would continue to study ways to incorporate risk factors into investment decision-making.

"We don't have a thought yet as to how we should overhaul or whether we should overhaul the asset allocation process, if there should be an allocation to factors rather than asset classes- that's a big broad question," Draycott said. "We're not yet ready to prescribe an overall risk framework."

EXPORT

Investor Profile

New York City Employee Retirement System (NYCERS)

New York City Fire Retirement System

New York City Police Retirement System (PPF)

New York City Board of Education

New York City Teachers Retirement System (NYCTRS)
