Money Management Report

fundmap.com April 2, 2018

Taft-Hartleys turn to OCIOs, alts: SEI

By Michael Paterakis

Trustees of Taft-Hartley pension plans are increasingly looking to outsource the investment function of their funds as in an attempt to rehabilitate their plans' poor financial wellbeing they are willing to consider more aggressive asset allocations.

A new study of 46 multiemployer pension plans conducted by **SEI** showed that the funded status of nearly half of the funds surveyed was seriously "endangered." Specifically, 17% of the respondents had a funded ratio between 65% and 79%, one-fifth had less than 65% funded, and 7% were expected to be insolvent within the next 15 years.

Despite that, most trustees categorically rejected the idea of closing their plans to new hires and reducing benefits (91% and 66% of poll respondents, respectively).

"Taft-Hartleys are not going away any time soon, so the question is what actions are being taken to improve their funded ratios," **Frank Wilkinson**, a managing director at SEI's institutional arm, told *MMR*.

According to the study, a majority of plans are either planning or considering increasing contributions (75% of respondents) and allocations to alternative investments (62%) over the next 12 months.

But as the complexity of the plan's investment portfolios increases, more trustees are willing to consider hiring an outsourced CIO (OCIO) to handle investing. Of the plans that said they use external resources for various of their functions, 83% of respondents said they already outsource some level of their investment decision-making or plan to discuss that possibility over their next review process.

SEI, one of the largest OCIO services providers, is currently managing approximately $10.6bn in Taft-Hartley assets. Since the end of 2012, the firm saw a 45% increase in assets from the multiemployer plan market.

"Historically, this group had significant dependency on consultants because most trustees don't have investment experience," Wilkinson said. At the same time, the Taft-Hartley market have been one of the last to adopt the outsourcing model, but "the poll suggests increased openness," Wilkinson added.

As to the types of alternatives Taft-Hartley plans look to add to their portfolios, most are considering increasing their real estate allocations and growing their private equity component, according to **Jon Waite**, a director in SEI's advisory team working with multiemployer and union plans.

"Plans looking to increase real estate have a strong tilt toward union-built properties and union-friendly investments," Waite added.