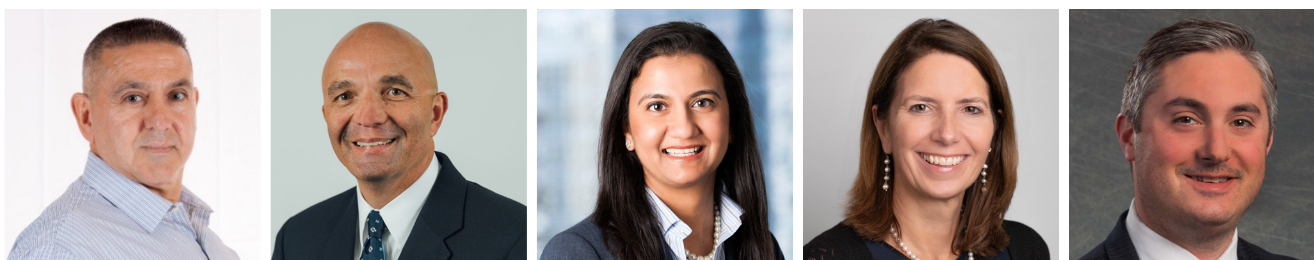
chief investment officer

OCIO Roundtable (Part 1)

Portfolio Rebalancing During COVID-19 Mayhem

On policies, benchmarking, and measuring added value within the current market.



FROM LEFT: Biagio Manieri of PFM Asset Management; Stan Mavromates of Mercer; Sona Menon of North American Pension Practice, Cambridge Associates; Heather Myers of Aon; and Jon Pliner of Willis Towers Watson.

This coronavirus environment often seems like mayhem, as the market swings and everyone holds their breath to find the real winners and losers of Q2. Some are questioning whether to fall back on their battle plans or create new ones. Others are wondering whether to rebalance or stretch beyond risk thresholds. During this roundtable, CIO checked in with a circle of Outsourced Chief Investment Officers (OCIOs) from five top firms for a live and active discussion.

CIO: Do you have an automatic rebalancing policy or do you incorporate market insights?

Biagio Manieri, Managing Director and Global Chief Investment Strategist, PFM Asset Management: The way we think about it, there's a number of different approaches that you can take. I think not one approach is best for everybody. It's what you're comfortable with. You probably should have some rebounds and policy as opposed to doing absolutely nothing and letting the portfolio drift, but if you're going to have some policy, what we typically see is a policy that's either based on the calendar so they're rebalanced at the end of the quarter or the end of the year, or based on certain triggers. So, if your strategic allocation is 'x', you would let it rise to 'y', let it fall to some level, and then you automatically rebalance. That's better than doing nothing. The way I think about it, it's better than doing nothing but it's not the best way.

We tactically allocate based on our views of the economy and based on our views of the market. So, we do fundamental analysis: What is happening in the economy? What's happening with monetary policy? What are the fundamentals of different asset classes? And based on that view, we then adjust the weights. We don't automatically rebalance back to some target because a particular asset class has risen from our tactical target. We're always asking the question, can this asset continue to appreciate because the fundamentals are getting better or if we're on the weight or out of an asset class, do we want to go in or not if the fundamentals continue to deteriorate?

In the current environment, we have been more active than typically. So, typically we make five or six tactical deci-

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

chief investment officer

"For example, a hospital may be suffering at this point in time, given the health crisis, with respect to cash flow needs. We take that very much into consideration before rebalancing. The decision is not made in a vacuum."

sions in a given year, so not trying to day trade, but we have been a lot more tactical this year given that the situation that we face, which is unprecedented—I'm not the first to say that—and given the volatility, so, in mid- to late February, we cut equities, for example. We cut equities, credit dramatically, and then we added back some to the rest of the portfolio, then we took some profit.

We have made a number of different decisions over the past few months, which is a lot more active than we typically do, but the way we think about it is we don't want to rebalance just because it's the end of the quarter, we don't want to rebalance just because equities are up 10% or down 10%. We want to assess what's going on in the economy, what's going on with capital markets and, based on the news, are we happy with the portfolio the way it's positioned? If not, what changes do we want to implement?

Sona Menon, Head of the North American Pension Practice, Cambridge Associates: To answer your first question, no, we don't have an automatic rebalancing approach, although we do believe that having rebalancing framework is important for our clients. I'll also say, because we serve institutional clients that are very different—we have health care organizations, corporate pension plans, endowments, etc.—that we really tie the rebalancing first and foremost to the specific institution's liquidity needs. For example, a hospital may be suffering at this point in time, given the health crisis, with respect to cash flow needs. We take that very much into consideration before rebalancing. The decision is not made in a vacuum. We also want to make sure we're mindful of other spending that's going to be happening or private investment capital calls.

After that, we do agree that once equities or credit sells off to a certain magnitude, it is important to rebalance, because you've become quite misaligned and you also miss upswings very much, in the way that we had in March where we had huge sell-off days and we had huge recovery days. So, given the magnitude of sell-off we saw after mid-March, we did start buying equities and also buying credit because the spreads had blown out, but I would say that we did not get to target and that was very deliberate because the crisis seems to still be unveiling as well as the economic impact is unclear. So, I would say we inched towards our targets, but did not get there.

Stan Mavromates, Partner and Americas CIO, Mercer: I think this is an obvious point: Each market crisis is unique. I think this one is very unique [with] the velocity and the speed by which it impacted financial assets and organizations. And I think because of that, you have to appreciate the value of what I would characterize of an enhanced governance structure, which we promote. I'm responsible for the OCIO and we run quite a few different asset pools. Enhanced governance to us and what we practice is preparing before the storm, during the storm, and after the storm, and that basically tells you that you have to have a plan and experience matters.

So in this particular situation, the first couple of weeks, let's say March 9, the infamous Monday after the Sunday of the Saudi Arabia and Russian oil event, it was really volatile that week. So, you had to look at the landscape of the say defined benefit plan: the trading cost to rebalance for credit was exorbitant, probably 140 basis points [bps]. We try to go halfway back, but we also want to examine the cost involved in that. So, we didn't get all the way back at the beginning, as Sona said. I think that's similar. But then once the Fed stepped in, liquidity got a little better, the trading costs went down. We're almost back to target because the investment policy statements [IPS] we follow very closely and that extracts the emotional component of it. That's why you have a battle plan.

I think also because we have various asset pools—that was a particular example of defined benefit that are very much focused on their value at risk to their funding ratio and things of this nature. So we let that run a little long in equities. We'll rebalance into equities but not to the full target. Not-for-profit: we go right back to target. Defined contribution is a pretty much an auto-pilot type of thing between the target-date fund [TDF] and the frequency of rebalancing, and we focus basically on the outcomes of our clients, on what their objective is, which I think is similar to what Sona and others have already said.

Opportunities now: obviously credit, high yield. The surprise last week was the Fed stepped in to back credit which they've never done in the history 'of ever.' It moved 6% in a day after spreads rose the fastest in history. So, there's an opportunity there. We are cautious about downgrades but that also breeds opportunity for investors that have a longer time horizon and perhaps want to wait it out.

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

“So we’re very cognizant of that. And now with equities coming back, we’re not telling our clients to overweight equity, so again you want to be within policy but not overweight. So rebalancing has been very important and something we’ve been actively doing.”

Heather Myers, Partner, Nonprofit Practice Leader, Aon: I’ll just make a couple really quick comments since most of it has been covered. So yes, just focusing on rebalancing, yes, we have policies on rebalancing (and I’m talking about our US portfolios as opposed to portfolios managed in other domiciles that we have). So we have balancing ranges. It’s already been raised. We thought about it, depending on DB versus nonprofit within nonprofit health care. All the different asset owner types have different targets and different considerations, so there are different recommendations for those. But, yes, in general, we’re rebalancing.

Back within policy, a point was raised that I agree with: We’re not selling clients to get back to target. We were not taking our OCIO clients back to target. Another point that was raised was how illiquid the markets were at the time and how challenging it was, especially a few weeks ago. So we’re very cognizant of that. And now with equities coming back, we’re not telling our clients to overweight equity, so again you want to be within policy but not overweight. So rebalancing has been very important and something we’ve been actively doing. We actively do anyhow, but given the volatility of the market, it’s been something very present in our discussions over the last seven weeks.

Jon Pliner, Senior Director, Investments – Head of Delegated Portfolio Management, US, Willis Towers Watson: Just to echo, not to repeat what’s been said because I would agree by and large with pieces of what everybody said. We have overbalancing framework. We don’t mechanically rebalance at any point in time back to targets, and similar to Biagio, we will have dynamic positions around the absolute strategic asset allocation targets. So one of the things that Stan said which I think is very important is having a plan, and we have been a little bit underweight risk for some time but one of the key components of that is having a plan to re-risk back towards our neutral risk level knowing and having a plan as to when to rebalance back or start buying back into risk. With that it’s not steadfast but it’s having a framework to do so, so that you can take some of the emotion out of buying back in while things are so volatile.

With that in mind, we did rebalance some in the middle of March back towards our risk assets, but given the price of those transactions, given the volatility on seeing the swings, with things moving so quickly, there is no way to actually get back to a specific target. Everything was an estimate because things were moving so quickly. So it was really more of a framework of getting back towards a risk position that you’re comfortable with given your overall views of the markets and the economies more broadly.

CIO: In the current market, how do you measure your added value in managing the single biggest risk: the asset allocation? How is it reported? How is it benchmarked to what the industry might have delivered?

Mavromates: It depends on the type of plan. Obviously, we have different asset pools. In defined benefit, we measure the success on the increase or decrease and the deterioration of the funding ratio. So, if you take the S&P 1500 in times of crisis, (the S&P 1500 is the 1,500 top companies with their funding ratios in their corporate pension plans,) if you take that, our strategies are designed to de-risk and do better than most. And in both crises in 2008 and now we are doing better than the overall 1500.

In other asset classes, with DC, it’s about the target-date fund versus the benchmark, individual options. With not-for-profit, it’s about preservation of capital and hitting their 5% bogey, plus 5% which is very difficult in this, so it’s allowing that institution to survive.

Manieri: How do we assess the value that we add? We do performance attribution on a regular basis and we report to clients. So, what did we add or subtract through our asset allocation decisions? If we’re overweight, underweight the asset classes, and then how did we do in picking managers (because we don’t buy individual securities ourselves.) We don’t buy Google or Microsoft. We do buy ETFs [exchange traded funds], (which are securities, but it’s a basket of securities.) We do asset allocation and manager selection. We do performance attribution, and we see what each decision added or subtracted. And then we have composites that are GIPS compliant. Every client has a benchmark and we’re able to show how we performed relative to that benchmark and, whether it’s regarding asset allocation or manager selection, what did each decision add or subtract? We do that on a regular basis and report that to clients.

Pliner: And I’d add one more piece to that. We’re doing attribution on a similar manner, but I think the first step of attribution is: What value has your strategic asset alloca-

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

“You want to look at how your portfolios—on both asset allocation and manager by manager—have they performed versus their benchmarks, and that’s an imperative. And then, again, based on the different types of asset pools, how are they relative to the needs of that pool.”

tion added, and any diversification you’ve added in, beyond just a very simple long equities investment grade bond portfolio? That’s at the risk level you’re seeking to achieve. What did your asset allocation do relative to that, then, any dynamic positioning relative to that, and your manager selection? So it’s trying to parse out the different levels of decision-making that you have throughout the portfolio, construction portfolio management process and where are you adding value for clients ultimately to achieve their long-term objectives?

Myers: I think everything that’s been said is absolutely true. You want to look at how your portfolios—on both asset allocation and manager by manager—have they performed versus their benchmarks, and that’s an imperative. And then, again, based on the different types of asset pools, how are they relative to the needs of that pool. (So funded status for a DB plan, for instance.)

There are so many other ways that we are adding value at this point: We’ve produced over 45 documents. We’ve had multiple webinars. We have clients who are thinking a lot about liquidity. Yes, you went through the liquidity crisis during the financial crisis. We saw the issue of liquidity coming up now. And so, if you had planned well, or learned a lot from the global financial crisis, a lot of what you learned then is coming to bear now. How did you think about liquidity?

Yes, we’re in a different market today and there’s a heck of a lot more going on, but so much of the conversation reverts back to what we learned then and how to apply that today. I think Sona was the first to raise this earlier in the conversation, but for nonprofits, liquidity is a huge issue. And whether they have a liquidity credit line available or what other ways that they can tap liquidity right now? That is part of the value-added conversation that I think is happening. It’s way beyond just, ‘How am I performing?’ It’s all the other things that we have to do to help these pools of capital.

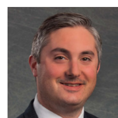
Menon: And I would just build on what everyone has already said by saying that one of the ways that I think we get evaluated is whether, particularly in a crisis time, we’re playing smart defense and smart offense. And by that, I mean: Have we protected the portfolio where we had intended to, through whatever asset classes we use, whether it‘s fixed income or hedge funds? And that‘s obviously going to be measured in the ways that were discussed. And then also: Are we priming the portfolio for opportunities as we see a dislocation in the market, whether that means risking up or looking at new strategies, or getting into managers or strategies that were previously closed. So that‘s where the sort of the smart offense would come in. But I think it‘s really the balance of both that people are looking to us to evaluate. ●

Biagio Manieri is a managing director and global chief multi-asset class strategist at PFM Asset Management, and he chairs the firm’s Investment Committee. He is responsible for the investment management of more than $20 billion in institutional assets. Prior to joining PFM Asset Management, he was the investment officer with the Federal Reserve overseeing the system’s pension plans.

Stan Mavromates is the Americas chief investment officer (CIO) for Mercer, where he is responsible for managing investment professionals in the United States and Canada overseeing over $100 billion in OCIO assets. He previously worked at the Massachusetts Pension Reserves Investment Trust Fund and for John Hancock Financial Services. He served in the U.S. Marine Corps and is a graduate of Bentley College’s MBA program and Northeastern University.

Sona Menon is the head of the North American Pension Practice and an OCIO at Cambridge Associates, a global investment firm, where she oversees investment portfolios for discretionary and nondiscretionary clients. She earned her master’s from Harvard Business School and her bachelor’s in government from Cornell University.

Heather Myers is a partner and nonprofit practice leader at Aon, where she is also chair of the U.S. Investment Committee. She joined Aon in 2016 after 27 years with Russell Investments and has been in investment industry for more than 30 years.



Jon Pliner is the US head of Delegated Portfolio Management for Willis Towers Watson. He has more than 15 years of investment industry experience and has been with Willis Towers Watson since 2004.

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

chief investment officer

OCIO Roundtable (Part 2)

Surprises and Best Practices through COVID-19

With due diligence limited, thought leaders from leading OCIO firms discuss their processes for navigating after the coronavirus crash.

FROM LEFT: Biagio Manieri of PFM Asset Management; Stan Mavromates of Mercer; Sona Menon of North American Pension Practice, Cambridge Associates; Heather Myers of Aon; and Jon Pliner of Willis Towers Watson.

One might need a surfboard to navigate the new crests and troughs of the COVID-19 market swings, which are some of the greatest in almost 100 years. It's affecting private markets, and due diligence, and it's difficult to predict who the true winners and deepest losers of Q2 will be. "There are many opportunities out there, but very few good ones," said one chief investment officer. In Part 2 of the OCIO roundtable, our pundits discuss what surprised them, what they're watching, how they allocate the truly golden opportunities between discretionary and non-discretionary clients, and the decision-making processes that have helped them to navigate the chaos.

CIO: During this COVID-19 market, in which most are working remotely, how are decisions at your firm being made? By a team? Is there a systemic process?

Jon Pliner, Senior Director, Investments – Head of Delegated Portfolio Management, US, Willis Towers Watson: Our process is done by committees. We have a global investment committee which I sit on, which comes up with our views at a point in time, so that's portfolio management on the OCIO side as well as our manager research (from the bottom-up perspective) and our capital markets research (from a top-down perspective.)

We have meetings to come up with our broad, high-level asset allocation and positioning that we like. We then have regional committees. I chair the US committee, which we adapt for our marketplace, our specific client types, and client needs and expectations, which then goes to portfolio managers for individual OCIO clients who will implement based upon that.

That worked quite well throughout 2018, 2019, and trying to create efficiencies for how we're managing the portfolios. This year and from mid-February through to now, in particular, that became even more important to ensure that we did have consistency. Those meetings became very, very frequent, multiple times a week, to make sure that we are understanding and taking in the information that's changing so frequently. [We're] coming up with decisions, but also not acting rashly across portfolios, and have a

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

chief investment officer

“If the markets are volatile, as they are from time to time, we meet on an ad hoc basis. I set the agenda, present the analysis to the other members of the committee in terms of what’s important, where I do want to make changes to the portfolio.”

consistent process that we can continue to implement that’s been successful for us in the past.

Sona Menon, Head of the North American Pension Practice, Cambridge Associates: We have several investment teams. I run my investment team, and then we have other OCIOs and the decisions we make are made inside of the team. So, there’s no committee structure or larger governing body that determines the asset allocation, because we tie the investment strategy of each portfolio to whatever the institution’s needs are. And so we have the ability to make the decisions inside of our team with the subject matter expertise that we have.

Our team essentially consists of everything that you would have in a typical investment office: a CIO, head of public markets, head of private markets, several analysts, a deputy, etc. It effectively replicates an investment office, and then we have obviously larger guardrails around what we can or cannot do that are informed through compliance. But we essentially leverage the same research platform of the organization. All the investment teams leverage the research and the manager ideas, but we make our own distinct decisions based on our clients’ needs.

Biagio Manieri, Managing Director and Global Chief Investment Strategist, PFM Asset Management: We have an investment committee, which I chair. We meet on a regular basis. If the markets are volatile, as they are from time to time, we meet on an ad hoc basis. I set the agenda, present the analysis to the other members of the committee in terms of what’s important, where I do want to make changes to the portfolio. We discuss it, make a decision, and then I work with the traders to implement those decisions across the different clients.

Heather Myers, Partner, Nonprofit Practice Leader, Aon: Our OCIO implementation follows a systematic process which is both top down and bottom up. We have a US Investment Committee, which I chair (we also have a UK and Canadian Investment Committee). The US Investment Committee is the oversight body for investment beliefs, recommended strategies, and policies (such as rebalancing) for both our advisory and our OCIO businesses. This USIC approves our model portfolios, which exist for different investor types (for example, endowments and foundations, defined benefit plans, health care operating, etc.). These portfolios provide guidance as to allocations, but aren’t expected to be rigidly followed. In addition, we have a separate oversight committee for our OCIO clients. That committee, of which I am also a member, monitors allocations and portfolio implementation for discretionary mandates. Every OCIO client is assigned a dedicated client team. Clients may be invested in our multi-manager fund vehicles or directly with investment managers or a combination of the two. The solution for each client is customized to their needs and objectives. There are other aspects of the process that provide guidance and oversight such as managers in discretionary mandates are on Aon’s Buy List and reviewed by the operational due diligence team. We have portfolio managers who manage the multi-manager funds and a team in charge of trading and oversight of portfolios. Finally, there is a regular review of the portfolios and drivers of performance.

Stan Mavromates, Partner and Americas CIO, Mercer: We have $300 billion globally, we have three regions around the world. I run the one in the US and Canada. There’s one in Europe, one in Australia. We have a pretty significant internal governance structure and the tone is set at the global level. The dynamic asset allocation was set at the global level on a quarterly basis in 2019. That is pushed down to the regions, and then, within each region we have our own regional committees that are particular to the types of clients we have. So, there are committees for: defined benefit, defined contribution, not-for-profit, and health and insurance. I run most of those committees. We meet monthly. And then to give you an idea, I have a portfolio management team and operations and all sorts of infrastructure that allows us to implement things.

So normally, those committees meet monthly and the dynamic asset allocation quarterly. In this particular crisis, we meet daily. As a portfolio management team and operations, we normally issue one dynamic asset allocation view per quarter. We issued about six in the last, and those are our guiding principles.

And then, what surrounds all of that, is our manager research footprint globally, where we have over 200 research analysts specializing in private equity, hedge funds, fixed income, equities, and real estate. That’s how decisions are made, but there’s a lot of discretion at the regional level in a governance framework.

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

“You have a benchmark, try to beat the benchmark, and don’t make excuses that the market went up or the market went down. That’s why clients hire us, and everybody else on the panel: to add value regardless of market conditions.”

CIO: How is performance in 2020 versus 2019, 2018? Any surprises?

Mavromates: Core and core plus fixed income surprised me in some of the plus sectors, the speed with which it deteriorated especially CNBS, ABS, those types of instruments overwhelmingly swamped the relative performance on the negative side. So, the plus sectors were down drafting. When you go into this market, most people were overweighting to some extent. They were underweighting treasuries coming out of ’19. That reversed itself in the blink of an eye. It’s recouped somewhat. I mean you can look up mutual funds, core or core plus, and you can see where it was in 2019, where was it the end of March, where it is now. You can see it’s improved a little bit now. I would say that was the biggest surprise for me.

Manieri: Clients hire us to outperform, and we used the same process last year as we used this year, which is to say ‘look to see what’s happening in the economy and capital markets and based on those views, how do you want to be positioned?’ The way we were positioned in the second half of last year, (because we did make a number of tactical decisions), we became more constructive as the year progressed. If you look at the data, the second derivative was turning less negative, turning positive, and you were beginning to see an improvement in the data. So, we added risk to the portfolio in August of last year and then again in September. So the quarter was strong. We outperformed.

We came into the year with a portfolio that was overweight equities but then, as we started getting data on the virus, we started de-risking, and so we took risk out of the portfolio and we outperformed in the first quarter as well, relative to the benchmark because we de-risked meaningfully. ‘How are you performing?’ is an important question because if you only do well in up markets, that just means you’re taking a lot of risk. If you only do well in down markets, it means you’re not taking a lot of risk in general. And we’re expected to do well whether markets go up or down, so no excuses. You have a benchmark, try to beat the benchmark, and don’t make excuses that the market went up or the market went down. That’s why clients hire us, and everybody else on the panel: to add value regardless of market conditions.

Pliner: What should be added to the question is: ‘What have you done over the entirety of the period?’ Because at the end of the day, yes, we’re trying to beat the benchmark in shorter term periods, but really, at the end of the day, we’re trying to compound capital at the highest rate that we can. And so, understanding how the portfolio has performed throughout those periods in a cumulative fashion, and managing through the volatility that we’ve seen, both on the downside and the end of 2018: The large rally in equities and credit during 2019, accompanied by the fall in Treasury yields, and then all of the volatility that we’ve seen year to date thus far. And so making sure that at a total portfolio level, we are making decisions that, over the longer term, will help our clients achieve their objectives, whether that’s reducing a funding deficit, whether that’s keeping up with your 5% spending needs and inflation for a nonprofit, or what have you. So, I think that the added piece to what have you done over those three periods is what have you done over the entirety of those periods?

Menon: I would agree with those comments. I would also say that the question about performance is such a broad one. Are you looking at absolute performance or are you looking at relative performance to benchmarks? You end up in very different places depending on the institution and whatever objectives we had set forth. So, I’ll leave that aside and say, what was surprising to me, was actually that markets have done through 2019 or rather early this year as well as they have done. The length of the strength of the market has been very surprising. I think that last year was a unique year in that equities did really well and fixed income did really well. That doesn’t happen very often in a given year. So that part was a surprise.

The fact that markets sold off sharply on the back of a crisis this year was actually not a surprise. They were ripe and ready for a sell off and a correction. And so, I think then, the question really becomes how do you navigate tactically within this? I don’t think anybody expected the type of returns that we’ve been seeing through 2019 to last. So, I think if we end up negative on this year, that won’t be a surprise. I think what’ll be interesting is how we position the portfolio and the new normal.

CIO: What factors do you incorporate in your decision-making? If you’re right, what signal helped you in 2020? And if you were wrong, what did you learn?

Mavromates: I think it depends on the particular circumstance and objective of that particular organization. And so,

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

"I think that you have to take a mosaic approach to today's portfolio construction. Our health care clients are under such different stress than our other clients: How are we thinking about their liquidity portfolios or their operating portfolios?"

for defined benefit, it's value and risk and funding ratio. For not-for-profit it's are they going to be able to meet the needs of their operation? Are their contributions going to go down? What's their liquidity like? And so, it's much broader. Defined contribution is obviously the younger demographic that has time on their side. The older demographic doesn't, so measure how some of the later dated target-date funds did, or the ones more close to retirement.

What did we learn? I think this crisis is different and speed matters, and you have to have a really good, robust, well-organized decision-making process so you can move quickly when you do see a signal. So, examples would be the balance between treasuries and credit. There's some good opportunities there.

On the learning side, I would say, you could have entered a little early on the credit side and taken a big haircut, but if you didn't move quickly enough, you missed the 6% run up when the spreads came in. It's about quality, speed, execution, and making sure you don't make a mistake. And if it slows you down by a little bit, that's OK. It's a little bit of a whirlwind, but that's sort of a quick tour of a view into our world.

Myers: I think that the learnings are obviously happening on a daily basis right now. The markets are so incredibly dynamic, and often the advice of a week ago may shift, based on where spreads are. I mean, look at the way the credit spreads blew out and then already have come back so significantly; or what you saw with equities and how they fell and then they came back so quickly. It's just such a dynamic market and there's so many more things that are driving the world we're living in today, compared to what drove us in the financial crisis.

One of the benefits we have (because we have much more than just investments at Aon,) we have this huge health care team and they're spending a heck of a lot of time thinking of all aspects of what's going on with COVID. Our IC meetings are usually monthly. We're now meeting (as others have said) multiple times a week, and in yesterday's IC meeting, I had one of our Ph.D. specialists in this area in health care speak to the IC and he just talked about what's really happening with this pandemic and how is it going to play out within the world? How do we see the world economy coming back? What's the impact of the vaccine? What's the impact mentally, the behavioral impact, all of that. And after he spoke, we pivoted to our chief economist and how he's seeing the markets. Taking that information is helping us think about the portfolio construction and whether we are missing something.

I think that you have to take a mosaic approach to today's portfolio construction. Our health care clients are under such different stress than our other clients: How are we thinking about their liquidity portfolios or their operating portfolios? Do we do something differently there just because of the metrics and the needs that they have? That's a significant different approach than you may have with some other pool.

The lessons are daily. We've just got to keep moving forward. We need to make decisions. Every decision we make is not going to be correct, but you can't just stand there and not be aware of what's going on and think about the impact of these portfolios. You've got to make decisions. And you hope that most of those decisions move you in the right direction, but there are absolutely going to be missteps along the way and we have to learn from those and regroup and then make the right decision the next time. So I would say it's not for the new investor. All of us have obviously lived through a lot. That really matters too: That we have the tenacity and the insights from previous experiences to approach this holistically and really think about it from many angles.

Menon: We think of four factors. The first is immediate liquidity needs, that's been said. Two is: which risks are we going to get compensated for? That involves a constant analysis of valuations, and the magnitude of the draw downs, so that we're doing the cost benefit analysis all the time in terms of where to take the risk. The third would be transaction costs. I think for technical reasons, more than anything, we've seen that in this crisis, transaction costs for things that are usually deminimis have gone up significantly and that weighs into when we decide to act and what the magnitude of that is. And then finally, I'd say investor sentiment: because one thing history shows us is that very deep pessimism from investors is often followed by some type of bottoming out and it actually creates an opportunity for those who are long-term investors.

Pliner: I echo what's been said and I think this really makes you go back and think about those processes you set up or any pre-mortems you had done before the crisis and triggers you may have hit, and how you reacted to them. Did you

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

"Maybe the basics of finance haven't changed as much, but the dynamics of it have and the ability to communicate, and how we communicate today and trade today, versus 20 years ago or even 15 years ago. There were surprises."

panic? Did you seize up or were you actually able to make a decision and act? Just to Sona's point, none of us know when the bottom is, regardless of what your area of expertise is, but being able to make decisions along the way will help in the long run as you're able to weather the storm and as that pessimism turns to euphoria. So, it's really important to make sure that you are actually making decisions.

Manieri: I would agree with what's been said. In terms of what we consider, yes of course we consider liquidities. We have clients that are pension plans, defined benefits pension plans, college endowments, etc. Obviously we need to consider what benefit payments have gone out the door, so we do need to consider liquidity. But then, subject to the constraints of the investment policy statements and the benchmark that we have, the investment process hasn't really changed this year versus previous years. We're analyzing economic factors, monetary policy, what's going on with the markets, and based on all of those views, how do we want to be positioned?

As I mentioned earlier, last year, we were pro-risk because that's what the analysis led us to conclude. In the first quarter, we cut risk because that's what the analysis led us to conclude. And so, the process itself really hasn't changed.

I think we talk about what lessons have you learned. If you recall a number of years ago, I was on a panel and the question was, 'Well what did you learn from the financial crisis?' And someone on the panel said, 'Well, I learned that correlations go to one during times of stress.' And everybody else sort of expressed their view. When it came to me, I said, 'I'm not sure we really learned anything because we know the correlations go to one. It's not the first time you're seeing it.'

I don't think there's anything that we have seen in the first quarter that we have not seen before or lessons in the first quarter given the volatility and so on that we haven't seen before. I think from time to time, this is the way the markets behave, risks go up, and you need a framework or how to think about how to manage a portfolio made up of different asset classes, and that framework should be robust enough where it works in 2018, it works in 2019, it works in 2020, because otherwise you're sort of making things up as you're going along.

Myers: I would just challenge you a little bit, Biagio, because I think that the world has changed. I mean, so I've been in the industry for 30 years, and when I started, we had the high yield markets collapsing at that time, and then, the world in fixed income in the early '90s was incredibly different in terms of how the dynamics and the trading, and think about hedge funds and their impact. We didn't have ETFs before. And so, with the multitude of different strategies and the different vehicles, that has led to different dynamics and the speed of which the retail investor can invest.

Maybe the basics of finance haven't changed as much, but the dynamics of it have and the ability to communicate, and how we communicate today and trade today, versus 20 years ago or even 15 years ago. There were surprises. I mean, the world was surprised at how fixed income seized up and everyone was surprised at what the Fed is doing now. So maybe you could have projected it, but I don't think it's exactly the same. I mean we learn from each iteration of a crisis and yes there will be more crises to come but it's not exactly the same as it was in the past.

Manieri: I did not mean to suggest that there are no changes. What I was referring to was the intellectual framework that you use to think about it. So yes, we have ETFs and we did not have them in the past, but with respect to liquidity, for example, if you think back to the financial crisis, GE could not offer commercial paper. I mean that's a form of illiquidity in the market that we have seen in the past.

I'm not saying nothing has changed, but the way I think about how I need to do analysis: I don't think that has changed. If there's something new in the market, a new product, I need to take that into consideration that there's new technology.

For example, I started off on the sell side and we used to do estimates and so on. So back in the 1970s, if you were able to get access to those company estimates before everybody else, you had an advantage but then First Call came along and published it to everybody at the same time so you lost that advantage. So yes, there was a change, I'm referring to intellectual framework, not the factors in the market or products or technologies that do change from time to time.

CIO: OCIOs often act as a middleman, which can add an extra step to a transaction. Are recent market events having any impact on getting allocations from top tier managers?

Pliner: I think from an actual getting capacity perspective, it's obviously very varied. Market downturns can provide

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

"I would say there's nothing like a market dislocation to open up the opportunity set and let you go back to your bench list of ideas that you've already done the work on but you couldn't get into."

more capacity. It provides opportunities so managers in many instances are actually looking for capital and to be able to deploy it. In some instances, you have managers that may have had issues, that need capital more than others, and they'll offer discounts to an employee, even if you think they're skilled.

On the private side, we think that a lot of private equity or private markets managers in general were thinking about coming to market this year, maybe postponing that because they have a lot to deal with with their portfolio companies, and things may at least go on hold. So that just may push back when that capacity does become available.

From a due diligence perspective, this certainly does make it harder to find new managers that you don't know very well already, because the inability to actually meet in person, see how people work, see how teams work together, that's just not possible today at all and the dynamics of how they work today are quite different from normal state or at least historical normal state. We'll see what it's like going forward.

And so, what that means is, for today, spending most of your time on making sure those managers that you do have capital with, you do have high views of, you're very on top of understanding what's going on, how they're functioning in today's new working environment. Are their business continuity plans actually working or are they having issues? Then figuring out from there where there is the ability to reallocate if you want to or need to. Finding new managers and doing due diligence on new managers is just very, very difficult today.

Myers: I think Jon raises a very important point. In the private markets, including private real estate, just the ability to get out on the field is not possible right now. So investors need to understand that, that it's almost, in some ways, frozen up, in terms of finding new ideas because you can't travel, you can't get out there and do your due diligence in that same way. So, again, to Jon's point, you can review what you currently have, and we're seeing a mixed bag out there. There are some interesting opportunities, but we're expecting it to start moving. It's certainly not moving like the public markets, as you would expect. And so, I think there will be some pretty interesting opportunities coming forward both on the private equity private credit and the real estate. We're just starting to really watch that.

Menon: I would say there's nothing like a market dislocation to open up the opportunity set and let you go back to your bench list of ideas that you've already done the work on but you couldn't get into. So that's certainly opening up. But on the point of 'where are all the great opportunities?' and 'Which new strategies do we want to get into?' I think that answer is still unfolding. Whereas on the public credit side, some of the opportunities are easier to evaluate and get into, and the opportunity is here today.

I think on the private credit side, we're seeing interest in more opportunistic things that were nichey. And on the private equity side and even on the hedge fund credit side, I think those opportunities are still developing. So we are still evaluating where that opportunity actually is while the managers are actually thinking it through and also trying to develop an investment vehicle for us. I think engaging in the dialog with the managers now in terms of what it looks like, what they're thinking about, gives you a little bit of chance to think through whether you want in or not.

Mavromates: There's a couple of things that I would say differently. It sounded like that question was more about execution and whether we able to implement our ideas. We've had no problem in implementing our ideas. We're continuing in the research that we did before. As I mentioned earlier, we have a little over 200 research analysts around the world, boots on the ground in different counties, and then you say, OK, well why do companies hire us for OCIO? Because they lack the internal resources. It's complex. It needs ongoing investment. We do that. We have a big parent company that reinvests in us, and we have a pretty significant global resource. That engine is still going, and going, and going, and it's really continuing to operate and adding some new ideas along the way, i.e., maybe now is the time to invest in high yield. I would say at the beginning, things were obviously chaotic from a financial perspective, meaning the markets, but pretty quickly you went back to your skill set, focused on what you needed to do, took advantage of your resources (albeit it's remote now, but I think we figured that out) and our contingency plans worked, our managers' contingency plans works. Clients are asking for more frequent meetings. We're being responsive to that, so I think it's as normal as it gets. It's gotten a lot more normal now than it was three or four weeks ago.

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.

“We think of it as a continuum. We have research and tools they can buy from us. We have our advice, or we could just implement for them in an OCIO, but everybody is treated equally.”

CIO: There are many opportunities but limited ones for really good ideas. How are you allocating those between your discretionary and non-discretionary clients?

Menon: We don’t treat them differently. Our ideas are equally available to both discretionary and non-discretionary, otherwise it wouldn’t really be fair to our clients, but what does vary is the implementation timing. For the non-discretionary, you have the additional governance step of having to seek approval for our recommendations, whereas, on the discretionary side we can move on it because we’ve got the delegated authority. So, I think that at the end of the day, while both types of institutions have the access to the idea, the timing and the implementation will vary and potentially might be also the returns, good or bad, we’ll see, that will be judged later. I think that’s the only thing that will vary.

Manieri: I was going to say I agree with those comments. That’s the way it works for us. We have both OCIO clients and consulting clients, and whenever we make any changes on the OCIO discretionary side, we tell the consultant clients what we’re doing and then they are free to say ‘yes, I’d like to do it’ or ‘why don’t you wait for the quarterly meeting and let’s discuss it.’ So there is a timing difference, but whatever we’re doing on the OCIO side, we make the clients aware of what we’re doing and then it’s up to them to say ‘yes, let’s pursue,’ or ‘wait,’ or ‘I’m not interested.’ So just as was previously stated. We treat them the same. They’re equal in our eyes.

Pliner: And same for us. Any changes to views for a manger or a strategy is disseminated to both the advisory and the OCIO side simultaneously. It ultimately comes down to the speed, and the governance process to allow the speed with which you’re able to implement. But everybody has the same opportunity to invest in any idea.

Myers: It’s the same for us and I just echo, exactly, it’s the speed. So we have the decisions, we have the views of the strategies we like. Right now ,we talked about opportunistic credit. We’re spending a lot of time thinking about all the different ways you can access this credit, whether it’s private or public, and whether it’s in hedge funds or fixed income and whatever. And so those ideas and the strategies, that information, is disseminated to all equally. And as already raised, the benefit of an OCIO is frequently the ability to act more quickly than a consulting or an advisory relationship.

Mavromates: The only thing I would add is, we think of it as a continuum. We have research and tools they can buy from us. We have our advice, or we could just implement for them in an OCIO, but everybody is treated equally.

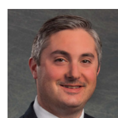
CIO: Thank you, everyone. ●

Biagio Manieri is a managing director and global chief multi-asset class strategist at PFM Asset Management, and he chairs the firm’s Investment Committee. He is responsible for the investment management of more than $20 billion in institutional assets. Prior to joining PFM Asset Management, he was the investment officer with the Federal Reserve overseeing the system’s pension plans.

Stan Mavromates is the Americas chief investment officer (CIO) for Mercer, where he is responsible for managing investment professionals in the United States and Canada overseeing over $100 billion in OCIO assets. He previously worked at the Massachusetts Pension Reserves Investment Trust Fund and for John Hancock Financial Services. He served in the U.S. Marine Corps and is a graduate of Bentley College’s MBA program and Northeastern University.

Sona Menon is the head of the North American Pension Practice and an OCIO at Cambridge Associates, a global investment firm, where she oversees investment portfolios for discretionary and nondiscretionary clients. She earned her master’s from Harvard Business School and her bachelor’s in government from Cornell University.

Heather Myers is a partner and nonprofit practice leader at Aon, where she is also chair of the U.S. Investment Committee. She joined Aon in 2016 after 27 years with Russell Investments and has been in investment industry for more than 30 years.



Jon Pliner is the US head of Delegated Portfolio Management for Willis Towers Watson. He has more than 15 years of investment industry experience and has been with Willis Towers Watson since 2004.

Reprinted from ai-cio.com 2020. ©1989-2020 Chief Investment Officer is owned by ISS. All Rights Reserved.
For information, call (203) 595-3276 or email reprints@issmediasolutions.com.