

Corporate Plans Face a Rough Road in 2011

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By **Paul O'Dowd**

Corporate defined benefit pension funds have to answer many questions in the coming year if they want to position themselves correctly to manage investments for the near and distant future. Some will choose to navigate these turbulent waters themselves while others choose to outsource their investment function.

One of the largest issues plaguing companies today continues to be underfunding, with the average corporation having a funded status in the 75% to 80% range. Funded status has improved some over the past year at many corporate plans, but is "still an issue," says Dave Wiederecht, president and CIO of investment strategies at GE Asset Management. "I can foresee corporations spending a fair amount of time [on solving funding problems] in 2011 and 2012."

GE Asset Management manages \$117 billion in assets overall, which includes GE Corp.'s \$43 billion U.S. pension as well as assets for other companies.

To compound this issue, expected returns on assets are "probably going to go down," he says, which is an area that not only impacts companies, but also public pensions. "Some plans are de-risking," to ensure stability within the funds.

Fine-tuning the asset allocation also will be a very strong focus next year, says Wiederecht. "Pensions will be asking themselves if they have the right [asset] mix, especially if the [current asset allocation] has contributed to them putting money in," he says. "If they'll be spending money on this, they'll want to make sure they have the right strategy. There is anecdotal evidence people are spending a lot of time on strategic asset allocation studies."

Wiederecht explains that companies are required under the Pension Protection Act to fund the pension, which increases the need for a proper asset mix. "This is becoming a bigger question as companies change their plan design," he says, adding that plan closures and frozen pensions face similar concerns.

One corporation that has recently made contributions while also changing its overall asset allocation is International Paper, the Memphis, Tenn.-based company that bills itself as the "global leader in paper and packaging products."

Robert Hunkeler, the company's v.p. of investments, says the \$9.6 billion pension voluntarily contributed about \$1.2 billion in assets to its U.S. fund this year. "These contributions to the U.S. pension fund help fulfill our long-term funding requirements and will reduce our future pension expense," he says.

Hunkeler says the company is acting from a position of strength, noting that the plan's funded status is improving and heading towards 100%, though he declines to cite an exact figure.

One move the fund made to better position itself was to cut its equities exposure to 45% while boosting its target to alternatives, a shift it began in 2008. While he wouldn't say how much the

fund now allocates to alternatives and fixed income, he says the pension has no plans of changing the allocation any time soon.

Another popular tactic used by corporations has been liability driven investing, which employs fixed income and derivative instruments to match assets to a plan's long-term liabilities.

While this type of strategy has its plusses, it also potentially maneuvers a company into a regular contribution timetable, says Wiederecht. "LDI is a topic that will be discussed for the foreseeable future," he says. "But if your plan is still open, an LDI strategy may force you into perpetual funding."

In the face of all of these issues, some companies choose to simply outsource the investment function, though often it is the smaller organizations taking this path.

One corporation to go this route is Houston-based Sasol North America, a company with a \$130 million defined benefit plan that produces commodity and specialty chemicals.

Brian Profitt, risk manager for the company, says he believes that outsourcing this function to a business that focuses on these matters not only saves time but also money. His biggest concern was the time it took to select an investment manager – a process that could take upwards of two years if the fund also had to terminate a firm, he says.

"We believe we could have earned a percentage [point] more if we had gotten rid of our dogs sooner," Profitt says, speaking about poorly performing managers. "Hiring an [outsourced provider] that constantly works on this", as well as other areas, is ideal, he states.

Sasol, which began outsourcing its pension eight years ago, first chose Russell Investments before moving to SEI Investments two years ago.