

► Pension Solution Helps in Turnaround of Mining Company

Organization: Global provider of mining services and equipment

Asset Size: \$540 million defined benefit plan

Solution Provided: Unique implementation of investment management and advisory services

Key Benefits:

- Reduced administrative burden and streamlined investment process
- Increased performance consistency and co-fiduciary comfort
- Lowered overall pension costs by 25%
- Provided ability to better predict and manage plan's impact on corporate financial statements

Manufacturers, like heavy equipment makers, were among the first business segments to feel the impact of reduced capital expenditures and technological advances in the mid 1990s. A soft market for mineral and energy resources at the start of the economic downturn had created significant cash-flow problems that sent this 80-year-old mining equipment company into Chapter 11 in 1999.

However, the global mining company quickly emerged from bankruptcy in 2001 under the direction of a third-party firm specializing in turning around companies experiencing management and operational difficulties. And SEI Investments' (SEI) integrated solution for the mining company's \$540 million in pension assets helped support the turnaround effort.

FITTING THE PENSION PLAN INTO THE TURNAROUND STRATEGY

Facing a short-term cash crunch, the third-party turnaround firm unveiled a company-wide reorganization plan designed to cut costs and create efficiencies across the board.

When the turnaround firm looked at the company's pension program, it found a process made up of nine separate investment managers, a consultant, and a trustee/benefit-payment provider all managed by three internal resources dedicated to the defined benefit plan. The firm also discovered that significant unplanned contributions were looming and manager underperformance was evident.

While the turnaround firm did not have specific pension expertise, it considered outsourcing the pension program as a viable option that would fit perfectly into its efficiency-driven reorganization strategy. One consideration in its search for the right pension provider was the fact that the \$540 million pension program was material relative to the size of the company. The turnaround firm knew it would need to find a pension management provider with significant investment expertise, an intimate service process and a proven track record.

DEVELOPING THE RIGHT SOLUTION

SEI and its leading Manager-of-Managers investment process with more than \$100 billion under management turned out to be the provider with the right solution and with the ability to provide significant benefits to a client of its size.

SEI's disciplined Manager-of-Managers process, which monitors and selects managers, allowed the turnaround firm to focus on strategic allocation decisions and not be burdened with the day-to-day operations of pension management.

"SEI's intimate and responsive service model immediately eased the client's pension concerns," said Paul Klauder, Vice President of SEI Investments Management Corporation. "Additionally, the style purity of our product lineup allows us to implement a tailored asset allocation to meet their needs."

For example, the investment model was designed to address a large number of retired and terminated-vested beneficiaries, correlating to approximately 30% of the assets. SEI customized a fixed-income strategy largely made up of long-duration bonds that matched the liability and lowered the investment risk and funded status volatility.

SEI's disciplined Manager-of-Managers process, which monitors and selects managers, allowed the turnaround firm to focus on strategic allocation decisions and not be burdened with the day-to-day operations of pension management. Manager of Managers also saved the pension committee considerable time as they were able to reduce the number of yearly meetings from eight down to four.

In addition, the SEI program provided such supporting services as automatic portfolio rebalancing and streamlined, consolidated reporting, which contributed to the time and cost benefits. Furthermore, the 25% savings in pension costs, realized early in the process, were instrumental in supporting the turnaround firm's overall strategy.

TAKING A COMPREHENSIVE APPROACH

SEI believes it is critical to manage the pension plan in a way that considers what is best for the plan and also considers the financial impact on the organization. This comprehensive approach was well received by this client facing bankruptcy and the challenge of managing such a large plan as compared to the size of the company.

SEI took the time upfront to understand the mining company's situation as well as the turnaround firm's reorganization strategy before designing and implementing

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— Paul Klauder
Vice President of SEI Investments
Management Corporation

a custom investment solution. "SEI's holistic approach enables the client to manage the financial impact of the pension plan with more predictability," says Klauder. "We were able to custom-build a cost-efficient investment solution that also supported the reorganization strategy and contributed to getting this leading global mining company back on its feet relatively quickly."