



ISSUE NO: 33

THE CORTEX REPORT

JULY 2013

Research Papers and Articles

This report lists selected research papers and articles published over the past three months, in academic journals, industry publications, as well as popular magazines and periodicals. We believe they may be of interest to trustees and staff of large institutional funds in North America.

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AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Alternative Investments			
aiCIO	The New Alternatives	aiCIO	April 2013
<p>Summary or Abstract: Hedge funds used to be exciting; private equity used to have a whimsical charm that enticed and alarmed institutional investors in equal measure. Now they, along with stable-mate real estate, enjoy allocations of up to 20% in most sophisticated portfolios. The annual Global Pension Asset Study by consulting firm Towers Watson, of pension fund investors across the globe, showed that at the end of 2012, the average allocation to “other”—meaning anything outside bonds, equities, or cash—was 19%, up from 5% in 1996. This shows that “alternative” is a misnomer for asset classes that have become mainstream to most sophisticated investors. Labels don’t matter if the performance is there, but sadly, many in this category have failed to exceed expectations in recent years. This article is not a call for investors to turn on these asset classes and run. Indeed, they are working very well in many institutional portfolios—but they no longer do the job for which they were intended because the diversification benefits are no longer there. Investors need more options.</p>			
<p>Web link: http://www.ai-ciodigital.com/ai-cio/april_2013#</p>			
Sabrina C. Callin and Andrew M. Hoffmann	It’s Time for Alternatives To Do Some Heavy Lifting	PIMCO	April 2013
<p>Summary or Abstract: For decades, institutional investors have incorporated alternative investments into their portfolios in a quest to manage risk, improve diversification and increase returns. For large institutional investors with a tolerance for illiquidity, alternative investments would likely include some combination of hedge funds, private equity, commodities and private real assets such as real estate, infrastructure and even timberland. For smaller and individual investors, an allocation to alternatives may simply mean a move beyond allocations to traditional stock and bond strategies. Regardless, it is clear that investors of all types and sizes are increasingly focused on the value proposition offered by alternative investments and specifically, liquid alternatives.</p>			
<p>Web link: http://www.pimco.com/EN/Insights/Pages/Its-Time-for-Alternatives-To-Do-Some-Heavy-Lifting.aspx#</p>			
Plan Sponsor	Alternative Investments: Some Pensions Moving Into New, Longer-Term Strategies	Plan Sponsor	April 2013
<p>Summary or Abstract: Corporate defined benefit (DB) plans, along with foundations and endowments, have invested in alternatives for decades. Years ago, they moved more quickly than public pension plans into areas such as real estate, private equity and venture capital, Siciliano says. Because public pension plans have more issues around trustee education and more complex approval processes to change asset allocations, this has slowed their movement into alternatives over the years, he says. But as defined benefit plans get comfortable with alternatives, they have expanded into new areas of interest.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492854&magazine=6442492822</p>			
Bernie McNamara, Michael C. Hudgins and Pulkit Sharma	Real Assets Solutions: Implementing the Realization	JP Morgan	May 2013
<p>Summary or Abstract: In a research paper entitled The Realization (May 2012), the JP Morgan proposed that, to address today’s fundamental challenges of low yields, high volatility and slow growth, institutional investors will need to increase allocations to real assets to as high as 25% or more of their portfolios. Real assets include real estate, infrastructure (e.g., regulated utilities, power generation, transportation assets), timberland, farmland, shipping and other large-scale, long-life tangible investments that deliver what investors are looking for. Traditionally, when investing in real assets, investors have turned first to real estate and, more often than not, to home country core real estate. A key point of the Realization is that while core real estate is a prudent first step, it should not be the last one.</p>			
<p>Web link: http://www.jpmorganinstitutional.com/cm/BlobServer/Real_assets_solutions_-_Implementing_the_Realization.pdf?blobkey=id&blobwhere=1321155493884&blobheader=applicati on%2Fpdf&blobcol=urldata&blobtable=MungoBlobs&isAMIA=yes</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Sabrina C. Callin and John R. Cavalieri	In an Era of Uncertainty and Lower Returns, It's Time for Alternatives	PIMCO	May 2013
<p>Summary or Abstract: For much of the past 30 years, traditional investment approaches produced results that allowed most investors to meet their investment goals. But times have changed, and stock and bond returns are likely to be lower than what investors have enjoyed historically. Fortunately, options exist for investors willing to break with tradition, rethink certain aspects of conventional wisdom and implement new alternative approaches that complement strategies that have worked well in the past. Thinking alternatively may increase the probability of success in what the authors believe is a new era for investors and financial markets.</p> <p>Web link: Returns-Its-Time-for-Alternatives.aspx">http://www.pimco.com/EN/Insights/Pages/In-an-Era-of-Uncertainty-and-Lower>Returns-Its-Time-for-Alternatives.aspx</p>			
Asset Allocation			
Stacey Marino and Ric Thomas	Is Factor-Based Asset Allocation the Answer?	State Street Global Advisors	March 2013
<p>Summary or Abstract: Two forces are driving institutions to examine the merits of Factor-Based asset allocation. First, the recent experience during the Global Financial Crisis exposed the weakness of the traditional 60/40 asset allocation framework as well as other models, including the classic endowment model. The second major force causing investors to consider Factor-Based asset allocation stems from diminished expected returns on most asset classes. The lowered expectations are coming at a time when pension funds are generally underfunded, particularly in the US., and acutely so among public funds. With these challenges in mind, there has been a noticeable increase in discussions surrounding the correct model for strategic asset allocation. Two of the more recent entrants into this discussion are Risk Parity and Factor-Based asset allocation. According to this article, Risk Parity is simply a special case of Factor-Based asset allocation. The article exposes the strengths and weakness of the factor approach, examines how it relates to risk parity and suggests a framework for moving in this direction.</p> <p>Web link: http://www.ssga.com/library/exchng/517020_Is_Factor_Based_Asset_Allocation_the_AnswerCCR11363074618.pdf</p>			
aiCIO	Has Risk Parity Jumped the Shark?	aiCIO	April 2013
<p>Summary or Abstract: While there is still much debate over what constitutes "true" risk parity (passive or active? product or strategy?), there is no longer the need to define its basic meaning. Instead, the debate du jour is whether risk parity has been too successful and has, like the Fonz, passed its prime.</p> <p>Web link: http://www.ai-ciodigital.com/ai-cio/april_2013#article_id=283869</p>			
Scott J. Donaldson, Maria Bruno, David J. Walker, Todd Schlanger and Francis M. Kinniry, Jr.	Vanguard's Framework for Constructing Diversified Portfolios	Vanguard	April 2013
<p>Summary or Abstract: This paper reviews Vanguard's recommended approach to the investment decisions involved in constructing a diversified portfolio. It discusses the importance of a top-down hierarchy—one that focuses on broad asset allocation and diversification within sub-asset classes before honing in on specific funds. It illustrates the importance of keeping portfolio costs low. Finally, it reviews key implementation considerations, such as the use of indexed or active strategies, tax efficiency for taxable investors, and the importance of rebalancing.</p> <p>Web link: https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvComInvestorDiversification</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Satya Kumar and Bob Penter	The Opportunity Allocation: A Tool to Provide Maximum Flexibility with Implementation	Hewitt EnnisKnupp	May 2013
<p>Summary or Abstract: It is widely accepted that the asset allocation decision is the single most important decision dictating an investor's success (and risk). A long-term focus is appropriate for such broad issues. The constraints of a formal asset allocation policy should not, however, impede investors' ability to implement attractive opportunities or innovative ideas as they arise. To overcome the rigidity of a formal asset allocation design, this article suggests that investors consider Opportunity Allocation as a means to be nimble to take advantage of market opportunities as they arise. It believes that such an allocation is most optimal for investors that already have well-diversified portfolios that encompass both traditional and alternative asset classes, and are seeking additional flexibility.</p>			
<p>Web link: https://ctech.rproxy.hewitt.com/hig/filehandler.ashx?fileid=8590</p>			
Michael J. Hood	Living Up to Potential	JP Morgan	May 2013
<p>Summary or Abstract: Potential economic growth stands at the core of investors' expectations for interest rates, market returns and Fed policy. This paper can help investors develop more explicit projections for growth while also outlining possible pitfalls. When defining potential growth, this paper explains the economic theory behind potential growth, the models used to estimate it, and the moving parts behind changes in potential growth over time. Investors should understand the uncertainty inherent in these estimates. The paper presents estimates for potential growth rates in major economies and how they have evolved. In the developed economies, potential growth will likely continue at its current clip, while emerging market (EM) growth will likely exceed that of the developed world. In the short term, investors can use potential output to make monetary policy forecasts and evaluate fiscal policy stances. In the long run, slower potential growth in the U.S. implies that future total portfolio returns may fall short of past returns.</p>			
<p>Web link: http://www.jpmorganinstitutional.com/cm/BlobServer/Living_up_to_potential.pdf?blobkey=id&blobwhere=1321154894989&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs&isAMIA=yes</p>			
Thomas M. Idzorek and Maciej Kowara	Factor-Based Asset Allocation vs. Asset-Class-Based Asset Allocation	Financial Analysts Journal	May/June 2013
<p>Summary or Abstract: This article addresses the issue of the alleged superiority of risk-factor-based asset allocations over the more traditional asset-class-based asset allocation. The authors used both an idealized model, capable of precise mathematical treatment, and optimizations based on different periods of historical data to show that neither approach is inherently superior to the other. Although the authors appreciate the role of risk models in portfolio management, they urge caution with respect to unwarranted claims of their dominance.</p>			
<p>Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v69.n3.7</p>			
Roger Clarke, Harindra de Silva, and Steven Thorley	Risk Parity, Maximum Diversification, and Minimum Variance: An Analytic Perspective	Journal of Portfolio Management	Spring 2013
<p>Summary or Abstract: Analytic solutions to risk parity, maximum diversification, and minimum variance portfolios provide useful perspectives about their construction and composition. Individual asset weights depend on both systematic and idiosyncratic risk in all three risk-based portfolios, but systematic risk eliminates many investable assets in long-only, constrained, maximum-diversification, and minimum-variance portfolios. On the other hand, risk-parity portfolios include all investable assets, and idiosyncratic risk has little effect on weight magnitude. The algebraic forms for optimal asset weights derived in this article yield generalizable properties of risk-based portfolios, in contrast to empirical simulations that employ a specific set of historical returns, proprietary risk models, and multiple constraints. These analytic solutions reveal precisely how various kinds of predicted risk affect the relative magnitude of security weights in each type of risk-based portfolio construction.</p>			
<p>Web link: http://www.ijournals.com/doi/abs/10.3905/jpm.2013.39.3.039</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Asset/Liability Management			
Theodore Economou, Gregoire Haenni, and Elena Manola-Bonthond	A Governance Framework Designed for Dynamic Asset Allocation – The CERN Pension Fund Model	Journal of Investment Consulting	March 2013
<p>Summary or Abstract: There is a growing awareness among pension fund fiduciaries that the traditional, static approach to asset allocation may not always protect the fundamental interest of their institutions: preserving capital and ensuring adequate and steady rates of return over time. The CERN Pension Fund innovated by moving away from the traditional framework and adopting a capital preservation approach based on dynamic risk-driven asset allocation. CERN's implementation of the risk-driven approach gives full flexibility to the investment team in allocating assets, subject to maintaining the fund's total risk under a pre-approved ceiling. Reconciling proper execution of fiduciary duties with the dynamic approach required a new governance framework, spelling out adequate investment principles, and incorporating independent daily risk-control as well as new metrics to measure performance.</p>			
<p>Web link: http://www.imca.org/sites/default/files/current-issues/JIC/JIC141_GovernanceFrameworkDAA.pdf</p>			
Amy Trainor Giuliani and Xisuo Louis Liu	Customizing the Pension Liability Hedge: A Balancing Act	Wellington Management Company	March 2013
<p>Summary or Abstract: Many plan sponsors are employing “glidepaths” that incrementally reallocate from equities and other return-seeking assets to long-duration bonds, with the end-state portfolio having a heavy emphasis on liability-hedging assets and very low funded-ratio volatility. As they look out toward this end-state, sponsors are asking if it is enough simply to invest in traditional long-bond benchmark strategies, or if a customized approach is needed to more precisely hedge the different risk factors in the liability — duration (interest-rate) risk and corporate bond credit (spread) risk chief among them. This paper suggests the time is ripe to consider these risks and the role that customization of liability-hedging allocations can play in managing their impact on funded ratios. It warns against another risk as well: over-customization, which can yield unnecessary complexity and diminishing benefit.</p>			
<p>Web link: http://www.pionline.com/assets/docs/CO8772342.PDF</p>			
Andrew Ang, Bingxu Chen and Suresh Sundaresan	Liability Investment with Downside Risk	National Bureau of Economic Research	May 2013
<p>Summary or Abstract: The authors develop a liability driven investment framework that incorporates downside risk penalties for not meeting liabilities. The shortfall between the asset and liabilities can be valued as an option which swaps the value of the endogenously determined optimal portfolio for the value of the liabilities. The optimal portfolio selection exhibits endogenous risk aversion and as the funding ratio deviates from the fully funded case in both directions, effective risk aversion decreases. When funding is low, the manager “swings for the fences” to take on risk, betting on the chance that liabilities can be covered. Over-funded plans also can afford to take on more risk as liabilities are already well covered and so invest aggressively in risky securities.</p>			
<p>Web link: http://www.nber.org/papers/w19030</p>			
James X. Xiong, Rodney N. Sullivan, and Peng Wang	Liquidity-Driven Dynamic Asset Allocation	Journal of Portfolio Management	Spring 2013
<p>Summary or Abstract: The authors propose a model of portfolio selection that adjusts an investor's portfolio allocation in accordance with changing market conditions and liquidity environments. They found that market liquidity provides a useful leading indicator in dynamic asset allocation. Specifically, market-liquidity risk-premium cycles anticipate economic and market cycles. Investors can therefore avoid markets with low liquidity premiums, waiting for more favorable circumstances to extract liquidity risk premiums. The result meaningfully enhanced portfolio performance through economic and market cycles, and is robust to transactions costs and alternate specifications.</p>			
<p>Web link: http://www.ijournals.com/doi/abs/10.3905/jpm.2013.39.3.102</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Commodities			
Guy Bruten	The Commodity Supercycle and the Risks of "Dutch Disease"	AllianceBernstein	May 2013
<p>Summary or Abstract: The commodity boom has been a key global macroeconomic and investment theme for more than a decade. Closely associated in many people's minds with the growth of China, the boom now appears to be losing momentum, as prices of a number of commodities have weakened and China shows signs of rebalancing towards a less commodity-intensive phase of growth. This article looks at the question of whether one of the great booms in history has begun to peak and, if so, what the implications might be for commodity-producing countries, and for investors.</p> <p>Web link: https://www.alliancebernstein.com/Perspectives/Perspectives-Articles/Commodity-Cycle/Stories/Contents-Text.htm</p>			
Consulting			
Frances Denmark	Outsourced Chief Investment Offices Gain Traction with Institutional Investors	Institutional Investor	March 2013
<p>Summary or Abstract: Everyone from former endowment CIOs to asset managers is hanging out a shingle as an outsourced chief investment office (OCIO). As pension funds, endowments and other institutions take advantage of OCIO services, this growing market will consolidate.</p> <p>Web link: http://www.institutionalinvestor.com/Article/3176679/Asset-Management-Archive/Outsourced-Chief-Investment-Offices-Gain-Traction-with-Institutional-Investors.html</p>			
Jay Youngdahl	Investment Consultants and Institutional Corruption	Edmond J. Safra Center for Ethics, Harvard University	April 2013
<p>Summary or Abstract: Investment consultants stand as gatekeepers between large investors, such as private and public retirement funds, and those from "Wall Street" who design and sell financial products. According to this article, investment consultants hired by these asset owners practically control many investment decisions. Yet as a whole the profession failed to protect asset owners in the recent financial crisis and has yet to engage in serious self-examination. Much of the reason for the failure can be traced to institutional corruption, which takes the form of conflicts of interest, dependencies, and pay-to-play activity. In addition, a claimed ability to accurately predict the financial future, an ambiguous legal landscape, and a tainted financial environment provide a fertile soil for institutional corruption. This institutional corruption erodes the confidence and effectiveness of the retirement and investment systems today. While not proposing a comprehensive system of reform, this article illuminates a way forward for those in the industry who have the desire to address and implement necessary corrective activity.</p> <p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2255669</p>			
Callan	Is OCIO Right for Your Fund?	Callan Investments Institute	May 2013
<p>Summary or Abstract: The industry press regularly reports on a large and rapidly growing outsourced chief investment officer (OCIO) market, and some fund sponsors wonder if this model would serve them better than the traditional consulting model. OCIO involves the outsourcing of investment oversight, monitoring, and management to independent experts. Institutional investors that cannot afford the substantial in-house resources required to manage the modern portfolio might consider implementing the OCIO model. However, OCIO is not a one-size-fits-all solution, nor a panacea for a challenging, low-return market environment.</p> <p>Web link: http://www.callan.com/research/download/?file=papers%2ffree%2f700.pdf</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Currency Management			
Andrew Keirle	Adding Alpha Through Currencies	T Rowe Price	March 2013
<p>Summary or Abstract: According to this article active currency decisions can provide a significant source of excess returns in the current low-yield environment. While there are risks inherent in currency investing, including policy action to promote depreciation, it argues that this risk is largely confined to developed countries. In contrast, emerging market currencies are likely to remain supported as global growth recovers and central banks continue to supply liquidity. Emerging market currencies in particular offer attractive opportunities, with positive real yields thanks to moderate levels of inflation. Investors can access exposure to currencies in different ways, through local currency-denominated bonds or by using forward instruments.</p>			
<p>Web link: https://www2.troweprice.com/iws/wps/myportal/canada/perspectives_and_research/t._rowe_price_publications/investment_dialogues?v_link=Investment</p>			
Derivatives & Synthetics			
Charles Anselm, Scott Maidel and Karl Sahlin	An Overview of Current Options-Based Risk Management Strategies	Russell Investments	April 2013
<p>Summary or Abstract: The move toward mark-to-market accounting has increased many investors' unease with risk, and how risk is experienced by the investor in terms of market volatility. This has led to a spike in investor demand for new approaches to managing risk. While broad-based equity index options have been traded since the early 1980s, their use by pension funds has been relatively modest – at least until now. This paper provides a brief overview of the following strategies by focusing on the specific investment challenge it is intended to solve:</p> <ul style="list-style-type: none"> ▪ Equity-overlay strategy: the put spread collar ▪ Equity replacement strategy: risk reversal ▪ Equity-overlay strategy: call overwriting ▪ Volatility strategy: short volatility ▪ Interest rate strategy: swaptions 			
<p>Web link: http://www.russell.com/us/institutional-investors/research/9-billion-and-counting-an-overview-of-current-options.page?</p>			
David Rae	An Introduction to Swaps	Russell Investments	May 2013
<p>Summary or Abstract: The use of liability hedging techniques by pension plans has become increasingly popular over recent years. While not the only instruments, interest rate and inflation swaps are often used in the management of hedging solutions. This paper takes a detailed look at these instruments, the benefits of their use and the pension plans' required risk-management techniques.</p>			
<p>Web link: http://www.russell.com/us/institutional-investors/research/an-introduction-to-swaps.page?</p>			
Jiajia Cui, Bart Oldenkamp, and Michel Vellekoop	When Do Derivatives Add Value in Pension Fund Asset Allocation?	Rotman International Journal of Pension Management	Spring 2013
<p>Summary or Abstract: Recent surveys indicate that many pension-fund participants aim for higher retirement income security. This article investigates the added value of including derivatives in the portfolio of pension funds to achieve this goal. To do so, it defines preferences that incorporate specific features of pension funds, but it also reports performance among several key criteria used in practice. Furthermore, it models explicitly that the equity market exhibits both jump risk and volatility risk. The results show that even relatively small investments in derivatives can achieve improvements in certainty equivalent rates of return and other important performance measures. This confirms the intuition that the use of derivatives allows pension investors to make explicit risk and return tradeoffs and diversify between diffusion risk, jump risk, and volatility risk.</p>			
<p>Web link: http://utpjournals.metapress.com/content/h1g6575402441501/fulltext.pdf</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Endowment Funds			
Michael F. Black and Kristin Reynolds	Total Enterprise Management for Endowments and Foundations	NEPC	April 2013
<p>Summary or Abstract: A primary concern for endowments and foundations is how to manage short-term spending needs, such that these expenditures do not eat into their long-term investment goals. In particular, these institutions worry about the effect of investment returns on operations, and balancing day-to-day financial obligations with longer-term investment gains. To this end, it is critical to understand the impact of longer-term asset allocation decisions on shorter-term operations. According to this paper, a Total Enterprise Management (TEM) model can efficiently bridge the decision-making gap between short term operational decisions and spending needs, and long-term investment return and risk.</p>			
<p>Web link: http://www.nepc.com/research/119-nepc_introduces_total_enterprise_management_for_endowments_and</p>			
Keith H. Black	Risk Management for Endowment and Foundation Portfolios	Journal of Alternative Investments	Spring 2013
<p>Summary or Abstract: When applied by the largest investors, the endowment model has created impressive returns over the past 20 years. However, this style of portfolio management comes with a special set of risks. First, portfolio managers need to be concerned about the interactions among spending rates, inflation, and the long-term asset value of the endowment. Second, a portfolio with as much as 60% invested in alternative assets raises concerns of liquidity risk and the ability to rebalance the portfolio when necessary. Finally, portfolios with high allocations to assets with equity-like characteristics and low allocations to fixed income require the portfolio manager to consider how to protect the portfolio from tail risk, which is a large drawdown in portfolio value during times of increased systemic risk. Those wishing to replicate the results of the most successful endowment and foundation investors need to consider the risks to inflation, liquidity, and extreme market events, while adding value through rebalancing and the successful selection of active managers. A focus on alternative investments also requires a greater degree of investment manager due diligence, evaluating both investment and operational risks.</p>			
<p>Web link: http://www.ijournals.com/doi/abs/10.3905/jai.2013.15.4.087</p>			
Equity Management			
Kevin Lewis and Peter Hardy	An Independent Allocation to Mid-Cap Stocks	American Century Investments	March 2013
<p>Summary or Abstract: Mid-cap stocks—and by extension mid-cap portfolios—encompass a segment of the market with more sustainable business models than small caps and higher long-term growth potential than large caps. Mid caps have provided higher long-term, risk-adjusted returns versus both large-cap and small-cap stocks. This paper examines how mid caps may provide higher returns and better risk-adjusted returns over time and why investors remain underexposed to them. It suggests that it's not just enough to be invested in the mid-cap space—active portfolio management is key because all mid-cap stocks aren't created equal.</p>			
<p>Web link: https://institutional.americancentury.com/institutional/institutional/other/03.2013_-_Independent_Allocation_to_Mid_Cap_Stocks.pdf</p>			
Geoffrey Gerber	Dividend-Growth as a Defensive Equity Strategy	Journal of Investment Consulting	March 2013
<p>Summary or Abstract: Volatility in asset returns acts as a drag on annualized average performance and ending wealth values. Investment strategies that seek to simultaneously reduce volatility and earn excess returns offer the opportunity to improve the return-risk ratio and the decision framework of institutional investors. Reduced-volatility equity strategies utilizing dividend-growth in the stock selection process are shown to have historically provided a boost to risk-adjusted performance.</p>			
<p>Web link: http://www.imca.org/sites/default/files/current-issues/JIC/JIC141_DividendGrowthDefensiveEquityStrategy.pdf</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Erik Knutzen	Pursuing the Low Volatility Equity Anomaly: Strategic Allocation or Active Decision?	NEPC	March 2013
<p>Summary or Abstract: In the last several years asset managers have built investment strategies based on historical evidence that lower volatility stocks earn superior risk adjusted returns. These approaches are being called low volatility, managed volatility, minimum variance, or similar names. As such, they seek to exploit what has been identified in studies by academics and practitioners alike as an equity pricing anomaly, which joins such previously identified persistent stock market inefficiencies as those associated with low price-to-book and smaller company shares. This paper evaluates low volatility equity investing by assessing the case for a continuing anomaly and its potential causes. It considers whether such an anomaly is likely to persist and the role, if any, of low volatility equity investing in long-term investment portfolios.</p>			
<p>Web link: http://www.nepc.com/research/116-pursuing_the_low_volatility_equity_anomaly_strategic_allocation</p>			
Craig J. Lazzara and Fei Mei Chan	The Case For Unconstrained Sector Weights	S&P Dow Jones	March 2013
<p>Summary or Abstract: The low volatility anomaly has attracted considerable interest from both the academic community and from investors. There are two main passive approaches to building low volatility portfolios: optimized and rankings-based. As the name suggests, the first of these approaches relies on a risk model, an optimization program and a set of constraints—e.g., that sector weights in the low volatility portfolio be within 5% of their level in the parent index. The rankings-based approach, in contrast, builds a portfolio of the least volatile stocks in the parent index and typically does not constrain sector or stock exposure. Not surprisingly, a rankings-based approach to low volatility will typically have larger sector bets, and higher tracking error, than will an optimized approach. This article examines whether this is a good thing.</p>			
<p>Web link: http://us.spindices.com/documents/research/research-the-case-for-unconstrained-sector-weights.pdf</p>			
Kevin Simms and Joseph G. Paul	Value in Controversy	AllianceBernstein	April 2013
<p>Summary or Abstract: Since the financial crisis in 2008, as investors fled to safety and away from the riskiest stocks, the most attractively valued stocks on global markets slumped. But there are increasing signs that a powerful recovery of value stocks is imminent. In late 2012, the cheapest quintile of global stocks based on price/book value outperformed the most expensive quintile by 10.5%. This paper explores how market distortions that undermined value investing in recent years have created a unique opportunity for active managers in attractively valued stocks across the globe.</p>			
<p>Web link: https://www.alliancebernstein.com/Research-Publications/Research-Articles/Value-Recovery/Stories/Value-Recovery.htm</p>			
Jon Eggins and Damien Amato	Start Small, Stay Small: Making the Most of U.S. Small Cap Equities	Russell Investments	April 2013
<p>Summary or Abstract: This article outlines some of Russell's core beliefs on how to add value in U.S. small cap, and how these beliefs are implemented on an ongoing basis in their portfolios. Russell aims to:</p> <ul style="list-style-type: none"> ▪ Design small cap portfolios that reflect the highest-confidence managers, ▪ Identify, and invest with, early-life-cycle managers, ▪ Allocate to microcap managers, and ▪ Dynamically manage the portfolios, recognizing that selecting good managers is only a necessary, but not sufficient, condition for success. 			
<p>Web link: http://www.russell.com/us/institutional-investors/research/start-small-making-the-most-of-us-small-cap-equities.page?</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
James C. Fallon and R. Dino Davis	Low-Volatility Investing Revisited	MFS Investment Management	May 2013
<p>Summary or Abstract: Investors continue to be very interested in reducing the volatility of their portfolios; however, for some this remains a luxury they can scant afford given the need to bolster returns in the current low-return environment. The low-volatility anomaly suggests that investors can achieve significantly lower volatility in their equity portfolios without sacrificing benchmark-like returns. This article argues that investors would do well to go beyond the construction of a relatively naive low-volatility portfolio, as they tend to suffer from many biases and embrace an approach that encompasses fundamental research, risk guidelines and optimization. This should result in better risk-adjusted performance through stock selection, risk management and portfolio construction with a broader universe of less volatile securities. Because of higher tracking error (but lower absolute risk) and the episodic investment performance of low-volatility portfolios, investing in such strategies requires a long-term perspective that will allow one to weather the underperformance in bull markets balanced by the outperformance in bear markets.</p>			
<p>Web link: https://www.mfs.com/wps/FileServerServlet?articleId=templatedata/internet/file/data/news/mfse_1vrev_wp&servletCommand=default</p>			
Andrew F. Pyne and, Sabrina C. Callin	Making the Most of Equity Allocations	PIMCO	May 2013
<p>Summary or Abstract: While equity markets have benefitted from aggressive central bank activity and signs of recovery, according to this article, slowing global growth and deleveraging are likely to result in lower long-term returns for most asset classes, including equities. Unresolved structural problems, particularly in developed economies, and policy uncertainty could also lead to periods of high volatility. Equities remain an important long-term return driver for investors, but the article argues that traditional approaches to building equity portfolios may not be enough. Three complementary ways investors can enhance their equity return potential going forward:</p> <ul style="list-style-type: none"> ▪ Fundamental indexes in place of cap-weighted exposure ▪ Structurally based, alternative alpha sources ▪ High active share stock selection approaches 			
<p>Web link: http://www.pimco.com/EN/Insights/Pages/Making-the-Most-of-Equity-Allocations.aspx</p>			
Robin Penfold	'Low Volatility' Equity Strategies	Towers Watson	May 2013
<p>Summary or Abstract: Investors often ask us about 'low volatility' equity strategies. That is hardly surprising, as these strategies target market returns but with much lower risk. While no two low volatility strategies are identical, most share many traits. For example, they often target similar anomalies in the equity market. This paper asks the question: Do low volatility equity strategies improve an investor's portfolio? It finds that they can in some cases. Even then, though, these strategies still raise concerns that all prospective investors should resolve before proceeding further. It discusses these concerns, before stating the attributes of these strategies that one should tend to seek and avoid.</p>			
<p>Web link: http://www.towerswatson.com/en/Insights/IC-Types/Ad-hoc-Point-of-View/2013/05/Low-volatility-equity-strategies</p>			
Roger G. Ibbotson, Zhiwu Chen, Daniel Y.-J. Kim, and Wendy Y. Hu	Liquidity as an Investment Style	Financial Analysts Journal	May/June 2013
<p>Summary or Abstract: Liquidity should be given equal standing with size, value/growth, and momentum as an investment style. As measured by stock turnover, liquidity is an economically significant indicator of long-run returns. The returns of liquidity are sufficiently different from those of the other styles that it is not merely a substitute. Finally, a stock's liquidity is relatively stable over time, with changes in liquidity associated with changes in valuation.</p>			
<p>Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v69.n3.4</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Jason C. Hsu, Hideaki Kudoh and Toru Yamada	When Sell-Side Analysts Meet High-Volatility Stocks: An Alternative Explanation for the Low-Volatility Puzzle	Journal of Investment Management	2 nd Quarter 2013
<p>Summary or Abstract: Using a global equity dataset that includes emerging markets, this paper confirms that high-volatility stocks tend to deliver low average returns; this effect is robust to adjustments for country and style factors. It also shows that sell-side analysts earnings growth forecasts for high-volatility stocks are more biased. It is well-known that sell-side analysts are predictably optimistic; however, the relationship between the degree of optimism and a stock's volatility has not been documented before. The paper hypothesizes that analysts inflate earnings forecasts more aggressively for volatile stocks, in part because the inflation would be more difficult for investors to detect. Because investors are known to overreact to analyst forecasts (under-adjust to analyst bias), this contributes to systematic overvaluation and low returns for high-volatility stocks.</p>			
Web link: https://www.joim.com/abstract.asp?ArtID=481			
Finance & Portfolio Theory			
Arun Muralidhar	The Relative Asset Pricing Model – Incorporating Liabilities and Delegation to CIOs: Version 0.1	Journal of Investment Consulting	March 2013
<p>Summary or Abstract: This paper makes a simple but bold argument that because mean-variance optimization (MVO) and the Capital Asset pricing Model (CAPM) were derived from a theoretical construct rather than from observing and explaining investment practice, they provide a special case of a more general theory. A typical investor, whether institutional or retail, sets aside money to service some future consumption (liability). The investor typically lacks the skill to make decisions and hires agents who may be lucky or skillful. Therefore, the author suggests that a more useful asset pricing model start with this representative investor, the liability, and the delegation of decision making to a third party. This view of the world more accurately describes reality, where decisions are relative and distinction between skill and luck is difficult. Hence he makes the case for a relative asset pricing model as the true starting point for any asset pricing or asset allocation theory. This paper is a first stab in that direction.</p>			
Web link: http://www.imca.org/sites/default/files/current-issues/JIC/JIC141_RAPM.pdf			
John H. Cochrane	Finance: Function Matters, not Size	National Bureau of Economic Research	April 2013
<p>Summary or Abstract: This paper addresses the controversy over whether the financial services industry is “too big.” It argues that we should be asking whether the finance industry is functioning properly instead. The facts suggest that demand for financial services increased, perhaps temporarily, rather than suggesting a changing distortion within the industry. The puzzling persistence of actively managed mutual funds is finally yielding to supply and demand analysis, but the increasing preference for high-fee delegated management by sophisticated institutional investors remains somewhat of a puzzle. Conventional alpha-beta analysis does not capture the rich structure of risk premiums, which active management may be accessing. High-frequency information trading and the price-discovery process remain a puzzle as well. Many “inefficiencies” and events of the financial crisis suggest too little rather than too much active trading. The instability and regulation of the US financial system are more important issues than its mere size.</p>			
Web link: http://www.nber.org/papers/w18944			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Philip Lawton	Searching for a New Investment Paradigm	Research Affiliates	May 2013
<p>Summary or Abstract: Investment management is supposed to be built on brilliant minds' novel insights and innovative approaches—or so our training and traditions have led us to believe. We celebrate our best investors, such as Warren Buffett, Peter Lynch, and Bill Gross, and our best financial theories, such as modern portfolio theory (MPT) and the efficient markets hypothesis (EMH). Yet it seems a long time since we have seen true genius or radically new ideas of the kind that energized the investment profession in the last half-century. Does the apparent dearth of financial genius mean the investment industry is in crisis? The author doesn't think so. In fact, he believes that the time is ripe for a new synthesis and that, in the interim, progressive investment management firms will continue to explore the possibilities and improve the investment process.</p>			
<p>Web link: http://www.researchaffiliates.com/Our%20Ideas/Insights/Fundamentals/Pages/F_2013_May_Searching-for-a-New-Investment-Paradigm.aspx</p>			
Bradford Cornell	What Moves Stock Prices: Another Look	Journal of Portfolio Management	Spring 2013
<p>Summary or Abstract: In 1989, Culter, Poterba, and Summers published an article examining the extent to which ex post movements in aggregate stock prices could be attributed to the arrival of news. They concluded that most of the 50 largest movements in the S&P 500 could not be matched with any convincing explanation for why future profits or discount rates might have changed. Since 1989, there has been an explosion in information technology, enhanced market regulation, and stock-trading innovation, as well as the introduction of new, equity-related financial products. The author explores whether Culter, Poterba, and Summers's conclusion still holds, and reports that it is intact. If anything, the mystery has deepened, because the size of unexplained market movements has grown.</p>			
<p>Web link: http://www.ijournals.com/doi/abs/10.3905/jpm.2013.39.3.032</p>			
Fixed Income			
Allianz Global Investors	Short-Duration High-Yield Bonds: An Attractive Solution for a Low-Yield, Rising-Rate Environment	Allianz Global Investors	March 2013
<p>Summary or Abstract: Income generation remains a primary concern for many investors, especially those nearing or in retirement. But with historically low yields for Treasuries, these traditional safe havens aren't providing sufficient income to meet investor needs—and they leave investors exposed to potential price depreciation from rising interest rates. One asset class to consider in this environment is high-quality short-duration high-yield bonds: They provide much-needed income, have held up well in rising-rate environments and can help reduce volatility without a significant drop in yield.</p>			
<p>Web link: http://us.allianzgi.com/Commentary/Research/Pages/ShortDurationHighYieldBondsWhitePaper.aspx</p>			
William J. Morgan, James P. Shanahan and Jon J. Salstrom	Bank Loans: Remedy for Rising Rates?	JP Morgan	March 2013
<p>Summary or Abstract: Bank loans are justifiably drawing an increased amount of attention and investment among the traditional institutional investor base. They are typically senior instruments, secured by a debtor's assets, and rank first in priority of payment in the capital structure. This generally makes them less sensitive to changes in credit fundamentals than high yield bonds. They tend to provide tighter covenant packages than high yield bonds. They are floating rate instruments. Their yield rises and falls with changes in LIBOR, so they are relatively insensitive to interest rate movements compared to high yield bonds and other fixed income investments. Their stability tends to offset interest rate risk and mitigate the price volatility inherent in a fixed income allocation. The market for bank loans has become large and reasonably liquid, similar to the high yield market.</p>			
<p>Web link: https://www.jpmorganfunds.com/cm/Satellite?pagename=jpmfVanityWrapper&UserFriendlyURL=contentdet_module&smID=1320475538412</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Robert M. Hall	A Credit-Based Yield Strategy	MFS Investment Management	March 2013
<p>Summary or Abstract: This paper examines two of the most prevalent risks in fixed-income management — interest rate risk and credit risk— and offers some thoughts on how to respond to those risks as well as long-term opportunities to alpha generation. It asserts the following:</p> <ul style="list-style-type: none"> ▪ The unpredictability of interest rates — this is not a new phenomenon, but it is especially notable today given current conditions. ▪ The desirability of emphasizing credit risk as the primary means of adding value in active fixed-income management ▪ The long-term opportunity to drive alpha generation through credit selection, with a particular focus on selection among BB and BBB rated securities 			
<p>Web link: https://www.mfs.com/wps/FileServerServlet?articleId=templatedata/internet/file/data/news/mfse_yield_wp&servletCommand=default</p>			
Michael Ferraro	The Changing Face of Money Market Funds	TIAA-CREF	March 2013
<p>Summary or Abstract: The appeal of money market funds has been well known to investors for decades—you put a dollar in and you get it out, you can have it when you need it and you may get a decent yield versus other similar options, such as bank products. The deal remains largely the same today, but without the yield component, which has been missing in action, a casualty of the current rock-bottom interest rate environment. Below the surface, however, much has changed in the money market fund landscape over the last several years, and more could be in store as reform proposals currently under consideration could fundamentally remake the asset class as soon as this year.</p>			
<p>Web link: https://www.tiaa-cref.org/public/advice-planning/market-commentary/market-commentary/investment_insight_articles/comm_0088</p>			
James P. Shanahan, David J. Matherly and Thomas J. Skowron	Opportunities in Distressed Debt: A Cycle-Aware Approach to Investing	JP Morgan	April 2013
<p>Summary or Abstract: History shows the most attractive returns in distressed debt are generally earned during the period of spread tightening around peak levels of default. Distressed opportunities can be found across the credit cycle—whether driven by macro developments, secular downturns or idiosyncratic credit events. According to this article, investors can be rewarded by committing capital to distressed debt when fundamentals remain solid and defaults are relatively low—before the onset of the next default cycle. It argues that the opportunity cost of committing capital too early in the distressed debt cycle is less than the cost of being late. Spreads tend to tighten much faster in a recovery, thus providing a limited window for capturing peak returns.</p>			
<p>Web link: http://www.jpmorganinstitutional.com/pages/jpmorgan/am/ia/research_and_publications</p>			
Chris Adolph and Travis Bagley	High-Yield Bonds Have Become a Global Opportunity	Russell Investments	April 2013
<p>Summary or Abstract: Investors seeking income or attractive total return investments often look into high-yield bonds as investment options, and rightfully so. However, they are generally at a loss when deciding between regional and global high-yield products, even though the decision can have real implications. This paper sets out a strategic perspective on U.S. and global high-yield bond market segments, as well as observations of how the practices of high-yield bond managers are evolving. It suggests that a global approach to high yield offers the potential for improved issuer and issue diversification and better access to a wider range of alpha sources.</p>			
<p>Web link: http://www.russell.com/us/institutional-investors/research/high-yield-bonds-have-become-a-global-opportunity.page?</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Fei Mei Chan and Craig J. Lazzara	Income Beyond Bonds	S&P Dow Jones	April 2013
<p>Summary or Abstract: Since the mid-1950s, one of the axioms of investment management has been that, in comparison to stocks, bonds are the superior income-generating asset. From the mid-1950s until quite recently, in fact, the yield on U.S. Treasury bonds consistently exceeded that of the S&P 500. Apart from a brief interlude in 2008, bond yields have consistently exceeded stock yields for the last 53 years. For more than half a century, in other words, three generations of investors have known that bonds “always” generate more current income than stocks. So it shouldn't surprise us that the reversal of this relationship in May 2012 caused investors to infer that something important had changed. Of course, we can't determine now whether this paradigm shift will be permanent or transitory, as it was in 2008. What is clear, though, is that the lowest bond yields in more than half a century have spurred tremendous interest in equity income generation.</p> <p>Web link: http://us.spindices.com/documents/research/research-income-beyond-bonds.pdf</p>			
John Geissinger	Rethinking Fixed Income: Challenging Conventional Wisdom	Hewitt EnnisKnupp	May 2013
<p>Summary or Abstract: With US Treasury interest rates at or near historic lows, public pension plan, endowment and foundation investors are questioning how to position the fixed income portfolio within the context of the larger diversified fund. The decline in interest rates over the last three decades has rewarded investors who were exposed to high interest rate beta or duration. The implication from this experience may be that there is a systematic term risk premium for investing in long duration bonds. This paper explores the assumption of a term risk premium, examines the ability of different maturity bonds to provide equity diversification, and concludes that:</p> <ul style="list-style-type: none"> ▪ The return premium from long duration bonds is less than what investors should expect given the volatility of this sector; ▪ Long duration bonds do not provide optimum diversification benefits for equity exposure; and ▪ The fixed income structure can be improved relative to common practice today. <p>Web link: https://ctech.rproxy.hewitt.com/hig/filehandler.ashx?fileid=8589</p>			
Fei Amy Shang, Eric Friedman, Russ Ivinjack and Phil Kivarkis	Long Credit in Liability Driven Investments: A Tragedy of the Commons?	Hewitt EnnisKnupp	May 2013
<p>Summary or Abstract: As corporate pension plans increasingly embrace dynamic Liability Driven Investment (LDI) strategies to de-risk, according to this paper, demand for long duration credit will increase to unprecedented levels. It suggests that the current U.S. Long Credit market would need to grow enormously—four to seven times the typical annual issuance—to meet the additional demand. The paper indicates a high likelihood of a substantial imbalance between supply and demand under a wide range of scenarios. It recommends that investors will be well-served by anticipating a potential imbalance between the supply and demand for Long Credit and planning their investment strategies accordingly.</p> <p>Web link: https://ctech.rproxy.hewitt.com/hig/filehandler.ashx?fileid=8588</p>			
William Martin	Finding Income and Managing Risk in a Near-Zero Interest-Rate Environment	TIAA-CREF	May 2013
<p>Summary or Abstract: Yields in traditional fixed-income strategies are near rock-bottom, causing many investors to seek other opportunities to meet income requirements. The current low-yield landscape raises important issues, including where to find adequate income, how to address the risk of rising rates and how to protect against the potential for higher inflation. Some non-traditional sources of yield include emerging-market debt, U.S. high-yield debt, dividend-paying stocks, real assets and commodities. A well-diversified fixed-income portfolio may provide income and generate positive returns even in a rising-rate environment.</p> <p>Web link: https://www.tiaa-cref.org/public/pdf/C10235_finding_income.pdf</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Peter Austin and Steve Huber	Improving Fixed Income Diversification With Global Multi-Sector Strategies	T. Rowe Price	May 2013
<p>Summary or Abstract: In the current market environment, traditional core bond strategies offer only limited diversification and return potential. They may leave investors overly concentrated in low-yielding, long-duration government and government-related assets. A global multi-sector approach enables portfolio managers to exploit a broader fixed income opportunity set and include specific return sources such as duration, credit, and currency exposure. Global multi-sector strategies involve risk/return trade-offs, given that some plus sectors historically have been more highly correlated with equities. By supplementing a core holding with a global multi-sector allocation, investors potentially can combine the diversification benefits of both.</p>			
<p>Web link: https://www2.troweprice.com/iws/wps/myportal/canada/perspectives_and_research/t._rowe_price_publications/investment_dialogues?v_link=Investment</p>			
Casey, Quirk	When the Tide Turns: Building Next Generation Fixed Income Managers	Casey, Quirk & Associates	May 2013
<p>Summary or Abstract: Both fixed income investors and managers have benefited from a secular bull market over the past thirty years. However, the current low-rate environment and fears over rising rates have changed the landscape of fixed income. This paper highlights shifting investor demand for fixed income strategies and describes four strategic initiatives that asset managers must employ to remain successful.</p>			
<p>Web link: http://www.caseyquirk.com/pdf/Casey%20Quirk_When%20The%20Tide%20Turns_May_2013.pdf</p>			
Dan Ransenberg and Paul D. Henderson	Navigating Fixed Income's Future	BlackRock	Spring 2013
<p>Summary or Abstract: Forecasting economic change and its effect on portfolios has never been easy. Rarely, however, has it been as difficult as it is now, in what might be termed the post-post-crisis environment. Years of ultra-low interest rates and dramatically steepened yield curves have left core fixed income allocations vulnerable to a rate rise. But with an unusually wide range of possible paths ahead for the world's economies, positioning portfolios for what may come is no simple matter. The purpose of this article is to think through the possible effects of different economic and interest rate scenarios. It posits a pair of hypothetical but representative fixed income investors: an endowment focused on generating real returns, and a pension fund with liabilities to meet. It then runs a series of stress tests on their portfolios, analyzing their overall performance through five economic scenarios we modeled to represent the main possible paths the authors think the global economy and financial markets might take in the next year.</p>			
<p>Web link: http://asp-us.secure-zone.net/v2/index.jsp?id=99/167/821&lng=en</p>			
Hedge Funds			
Daniel Li, Michael Markov, and Russ Wermers	Monitoring Daily Hedge Fund Performance – When Only Monthly Data Is Available	Journal of Investment Consulting	March 2013
<p>Summary or Abstract: This paper introduces a new approach to monitoring the daily risk of investing in hedge funds. Specifically, it uses low-frequency (monthly) models to forecast high-frequency (daily) hedge fund returns. This approach addresses the common problem that confronts investors who wish to monitor their hedge funds on a daily basis – namely, that disclosure by funds of returns occurs only at a monthly frequency, usually with a time lag. The paper uses monthly returns on investable assets or factors to fit monthly hedge fund returns, then forecast daily returns of hedge funds during the following month using the publicly observed daily returns on the explanatory assets. It shows that its replication approach can be used to forecast daily returns of long-short hedge funds. In addition, for diversified portfolios such as hedge fund indexes and funds of hedge funds, the approach forecasts daily returns very accurately. The paper illustrates how its simple replication approach can be used to 1) hedge daily hedge fund risk and 2) estimate and control value-at-risk.</p>			
<p>Web link: http://www.imca.org/sites/default/files/current-issues/JIC/JIC141_MonitorDailyHFPerformance.pdf</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
SEI	6 Ways Hedge Funds Need to Adapt Now	SEI	March 2013
<p>Summary or Abstract: It has been nearly five years since the financial world was turned upside down. The events of 2008 and their aftermath are burned into the memories of asset managers and investors alike. For those who are still in the process of recouping their losses, the pain is all too present. This report highlights many areas of potential change and improvement in hedge fund practices and client relationships—from a greater focus on defining the value funds deliver to more robust and multi-faceted client communication. The overarching message that emerges is one centering on the need for better understanding among hedge fund management firms and institutional clients. Better-written mandates, more fully articulated investment processes, and added documentation may address symptoms of the industry's current problems.</p>			
<p>Web link: http://www.seic.com/enUS/about/11469.htm</p>			
Jeffrey H. Mitchell	Hedge Fund Replication: Traditional Beta, Alternative Beta, and Alpha	NEPC	April 2013
<p>Summary or Abstract: Hedge fund replication products have a lofty goal: to provide the proposed benefits of hedge funds without the drawbacks. These products strive for attractive returns on a consistent basis, with low correlation to traditional investments, such as stocks. At the same time, they aim to steer clear of the potential drawbacks of hedge funds, for instance, the high fees, limited transparency and lower liquidity. This paper defines hedge fund replication and discusses the pros and cons of the various approaches. It concludes with some thoughts on the role these strategies might play in institutional investment portfolios, large and small.</p>			
<p>Web link: http://www.nepc.com/research/118-hedge_fund_replication_traditional_beta_alternative_beta_and</p>			
John West	The Lure of Hedge Funds	Research Affiliates	April 2013
<p>Summary or Abstract: When describing some of the “idiocy of investment management,” Charlie Munger, Warren Buffet’s longtime right-hand man, business partner, and friend, tells a story of an encounter with a fishing tackle salesman who was selling lures that bore little resemblance to fish. “I asked him, ‘My God, they’re purple and green. Do fish really take these lures?’ And he said, ‘Mister, I don’t sell to fish.’” The analogy is a good one. Investors often buy what they think is exciting, sophisticated, and complex with the embedded assumption that all of these attributes will lead to greater returns. We see this today where we witness the continued explosive growth of hedge funds. But, a careful examination of the data reveals that these fancy lures fail to hook as much in excess, after-fee returns as more time tested strategies.</p>			
<p>Web link: http://www.researchaffiliates.com/Our%20Ideas/Insights/Fundamentals/Pages/F_2013_April_The-Lure-of-Hedge-Funds.aspx</p>			
Richard J. Harper	Absolute Tracking: Moving Past Absolute Return for Hedge Fund Benchmarking	NEPC	May 2013
<p>Summary or Abstract: Recent bouts of market volatility underscore the shortcomings of absolute return benchmarks in evaluating hedge fund manager performance. By most metrics, absolute return benchmarks behave differently from actual hedge fund performance, and their usage blurs the line between manager skill and market exposure. This paper recommends an alternative way to assess the capabilities of hedge fund managers.</p>			
<p>Web link: http://www.nepc.com/research/77-absolute_tracking_moving_past_absolute_return_for_hedge_fund</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Inflation Protection			
George Crawford, Jim Kyung-Soo Liew, and Andrew Marks	Investing Under Inflation Risk	Journal of Portfolio Management	Spring 2013
<p>Summary or Abstract: Inflation, a quiet but growing concern, is complicated by its unpredictable timing and severity. A survey of 110 years of inflation data suggests that Treasury bills track inflation better than do equities or bonds, a robust result across 19 countries. In the period from 1980 to June 2012, evidence exists for including alternatives to Treasury bills, such as Fama-French's HML and SMB as well as some stealth fighters. In the same period, evidence suggests that TIPS and trend-following strategies appear to help track inflation in the absence of Treasury bills. Gold and real estate, though popular, are unlikely to be good inflation hedges. Results suggest that an observer can track inflation, but should use methodologies that include dynamic weighting schemes because the relationship between inflation, assets, and investment strategies is very complex.</p>			
<p>Web link: http://www.ijournals.com/doi/abs/10.3905/jpm.2013.39.3.123</p>			
Infrastructure			
Bradley D. Belt and Joshua Nimmo	Catalyzing Pension Fund Investment in the Nation's Infrastructure – A Roundtable Discussion	Milken Institute	April 2013
<p>Summary or Abstract: Upgrading and maintaining America's infrastructure is critical to its economic future. Public investments, particularly given government budget constraints, can't fully satisfy this need. Pension plans are struggling to meet their long-term obligations in an environment of heightened market volatility and historically low interest rates. Traditional pension investments, a mix of equities and fixed-income assets, do not provide the stable, long-term cash flows that investments in infrastructure can offer that would help pensions meet their long-term obligations. This roundtable – convened in December 2012 with participants including pension fund officers, private-equity investors, and senior administration members – explored whether any new or innovative approaches to investing in the asset class could attract more pension fund capital. It then discussed the strengths, weaknesses, and scalability of multiple infrastructure investment approaches. In particular, the roundtable examined strategies used or being considered in non-U.S. markets to ascertain whether these or similar models are adaptable to the U.S. market.</p>			
<p>Web link: http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=38801408&cat=rsrep</p>			
Mark Weisdorf and Serkan Bahçeci	Too Good to Last	JP Morgan	May 2013
<p>Summary or Abstract: Over the past two decades, institutional investment in infrastructure has spread from the United Kingdom to Australia to Canada to Europe, and finally to the United States, as investors sought stable income-oriented, inflation sensitive investments with uncorrelated return streams. While the investor base has grown in number and reach, typical allocations in the United States remain in the low single digits. Now, the authors believe we are rapidly approaching a tipping point where institutional investors searching for income, frustrated by lackluster economic growth prospects and dissatisfied with the volatility of public equity markets, are turning to infrastructure in larger numbers and with greater allocations.</p>			
<p>Web link: http://www.jpmorganinstitutional.com/pages/jpmorgan/am/ia/research_and_publications</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
International Investments			
Plan Sponsor	Best Game in Town	Plan Sponsor	March 2013
<p>Summary or Abstract: Institutional investors have embraced the equities of the emerging markets in the last five years, adding to their investments as they have liquidated their holdings of companies in developed economies. Up from 6% in 2008, emerging markets equities now make up about 10% of institutions' overall equity holdings, according to eVestment Alliance data. This article argues that there is a sound logic to preferring the emerging markets. Economic growth is forecast to be far stronger in these markets than in the U.S. and Europe. And even though past growth has been led by exports to the developed world, the expansion is expected to accrue to companies that serve the local economies, which are growing in both numbers and wealth. In a world of slow growth, emerging markets equities could be the best game in town.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442491860&magazine=6442491827</p>			
George R Hoguet	How Best to Combine Emerging Market Assets: A Preliminary Methodology	State Street Global Advisors	March 2013
<p>Summary or Abstract: This article briefly describes a methodology for combining various emerging market asset classes and sub asset classes in a portfolio. The basic message is that investors should: 1) adopt a well-structured, comprehensive and deliberative investment process; 2) evaluate emerging market allocations at the portfolio level; 3) pursue constrained optimization techniques based on reasonable and parsimonious optimization inputs, and 4) rigorously and continuously monitor, evaluate and manage their factor exposures via a risk model.</p>			
<p>Web link: http://www.statestreet.com/wps/wcm/connect/ccf62080458c7d329782d7a4b1e7f8a7/How+Best+to+Combine+EM+Assets+Hoguet+12.3.10rREV.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ccf62080458c7d329782d7a4b1e7f8a7</p>			
Stephen Yeats	Mapping and Navigating the Emerging Market Fixed Income Universe	State Street Global Advisors	March 2013
<p>Summary or Abstract: With investors increasingly concerned about the fiscal health of traditional developed bond issuers, and the low yields on offer, emerging market debt is showing up on investors' radars. The case for EM is well established and widely discussed. The variety of EM bond exposures available to investors, and how they relate to each other, is less so. This article shows that underneath the surface of the term Emerging Market Fixed Income there is in fact a rich landscape of very different countries and types of bond, offering investors a wide range of risks and opportunities. It looks at how these differences can inform the way investors define the exposure they want to take, and the management style they wish to employ. It finds that in more liquid parts of the EM market, taking a diverse overall market exposure via use of an index can make sense, whereas in more frontier markets, a more opportunist, idiosyncratic focused approach may be more appropriate.</p>			
<p>Web link: http://www.ssga.com/library/poww/533170_Mapping_and_Navigating_the_Emerging_Market_FI_UniverseCCR11366033191.pdf</p>			
BlackRock	What's Developing? Investing In Emerging Markets	BlackRock	April 2013
<p>Summary or Abstract: What are the main long-term factors in investing in emerging markets? These include the different types of emerging market exposures; the deepening of financial markets; urbanization; China's shift to a consumption-driven economy; and the increasing global appetite for food (and fresh water). After discussing these trends, we identify investment opportunities—and perils—in emerging market debt and equity. We conclude by highlighting two risks as the era of easy money draws to a close: a strong US dollar and credit booms.</p>			
<p>Web link: https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111185852</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Fran Rodilosso	Advantages of International High-Yield Bond Allocation	Journal of Indexes	May/June 2013
	<p>Summary or Abstract: With demand rising for high-yield (HY) bonds, investors are engaged in a lively debate over the merits of active versus passive management in this asset class. Strong inflows to HY exchange-traded funds over the past three years (2010-12) have shown that the case for passive management is compelling to many. The two largest HY ETFs, the iShares High Yield Corporate Bond ETF and the SPDR Barclays High Yield Bond ETF comprise approximately \$27 billion in assets between them. For institutional or high-net-worth investors, adding HY to a portfolio can be as simple as choosing one of these very popular funds, both of which focus mainly on the U.S. bond market. However, this approach limits investors to only approximately two-thirds of the total global HY exposure. Due to the global expansion of the HY bond universe and ETF choices in this space, it is now possible to add significant non-U.S. diversification to HY portfolio allocations.</p>		
	<p>Web link: http://www.indexuniverse.com/publications/journalofindexes/joi-articles/16540-advantages-of-international-high-yield-bond-allocation.html?showall=&fullart=1&start=6</p>		
Investment Management			
William F. Sharpe	The Arithmetic of Investment Expenses	Financial Analysts Journal	March/April 2013
	<p>Summary or Abstract: Recent regulatory changes have brought a renewed focus on the impact of investment expenses on investors' financial well-being. The author offers methods for calculating relative terminal wealth levels for those investing in funds with different expense ratios. Under plausible conditions, a person saving for retirement who chooses low-cost investments could have a standard of living throughout retirement more than 20% higher than that of a comparable investor in high-cost investments.</p>		
	<p>Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v69.n2.2</p>		
Julie Segal	Asset Managers Yield to Pressure on Fees	Institutional Investor	April 2013
	<p>Summary or Abstract: A recent survey of 89 participants from 86 large money managers found that asset managers are increasingly discounting fees in the face of pressure from big institutional investors. According to the survey, conducted by Institutional Investors, 21 percent of the respondents reported that discounting had pushed fees down by up to 20 percent. Another 23 percent said that fees declined by 20 to 40 percent.</p>		
	<p>Web link: http://www.institutionalinvestor.com/Article/3207518/Investors-Archive/Asset-Managers-Yield-to-Pressure-on-Fees.html</p>		
Keith Ambachtsheer	Fixing the "Loser's Game": What It Will Take	Financial Analysts Journal	May/June 2013
	<p>Summary or Abstract: From Charley Ellis's 1975 article "The Loser's Game" to his 2012 article "Murder on the Orient Express: The Mystery of Underperformance," little has changed in an industry he continues to accuse of producing too little value at too high a price. Why is that? Why has his multi-decade criticism of the global investment management industry (along with a few fellow travelers, such as Jack Bogle and Burt Malkiel) had so little impact? And what will it take for the industry's services to produce measurable customer value at a reasonable price in the future? Could it happen?</p>		
	<p>Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v69.n3.2</p>		

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Burton G. Malkiel	Asset Management Fees and the Growth of Finance	Journal of Economic Perspectives	Spring 2013
<p>Summary or Abstract: From 1980 to 2006, the financial services sector of the US economy grew from 4.9 percent to 8.3 percent of GDP. A substantial share of that increase was comprised of increases in the fees paid for asset management. This paper examines the significant increase in asset management fees charged to both individual and institutional investors. One could argue that the increase in fees charged by actively managed funds could prove to be socially useful if it reflected increasing returns for investors from active management or if it was necessary to improve the efficiency of the market for investors who availed themselves of low-cost passive (index) funds. But neither of these arguments can be supported by the data. Actively managed funds of publicly traded securities have consistently underperformed index funds, and the amount of the underperformance is well approximated by the difference in the fees charged by the two types of funds. Moreover, it appears that there was no change in the efficiency of the market from 1980 to 2011. Thus, the increase in fees is likely to represent a deadweight loss for investors. Indeed, perhaps the greatest inefficiency in the stock market is in "the market" for investment advice.</p>			
<p>Web link: http://www.aeaweb.org/articles.php?doi=10.1257/jep.27.2.97</p>			
Gordon L. Clark	The Kay Review on Long-Horizon Investing: A Guide for the Perplexed	Rotman International Journal of Pension Management	Spring 2013
<p>Summary or Abstract: The final report of the Kay Review of UK Equity Markets and Long-Term Decision-Making was published in July 2012. It offers a view on the causes and consequences of the global financial crisis and what might be done to reform the structure and performance of the British investment management industry. This article explains the significance of the Kay Review, its sponsor, and the nature and scope of its recommendations. In the main, I am enthusiastic about its agenda, even if I am surprised by some of the report's assumptions and suppositions. At one level, the report declares open season on the investment management industry; at another level, it is only half the story. Where the Kay Review might have looked closely at both sides of the market, it chose to focus on asset managers rather than asset holders, yet the latter group also bears some responsibility for short-termism. The key recommendations, aimed at applying a stronger conception of fiduciary duty to investment managers, will have little impact if asset holders are not effective clients of the global financial services industry. The British government's response to the final report of the Kay Review was lukewarm, deferring on its recommendations on fiduciary duty.</p>			
<p>Web link: http://utpjournals.metapress.com/content/r5738755h2403227/fulltext.pdf</p>			
Investment Strategy			
Noël Amenc, Felix Goltz and Lionel Martellini	Smart Beta 2.0	EDHEC-Risk Institute	April 2013
<p>Summary or Abstract: Recent years have seen increasing interest in new forms of indexation, referred to as Smart Beta strategies. Investors are attracted by the performance of these indices compared to traditional cap-weighted indices. However, by departing from cap-weighting, Smart Beta equity indices introduce new risk factors for investors, and no sufficient attention is presently given to the evaluation of these risks. In addition, the Smart Beta market appears to be inefficient today, due to restricted access to information, as well as lack of independent analysis. This paper puts forth a new approach to Smart Beta investment which allows investors to not only assess, but also to control the risk of their investment in Smart Beta equity indices. Rather than only proposing pre-packaged choices of alternative equity betas, the Smart Beta 2.0 approach allows investors to explore different Smart Beta index construction methods in order to construct a benchmark that corresponds to their own choice of risks.</p>			
<p>Web link: http://www.edhec-risk.com/latest_news/featured_analysis/RISKArticle.2013-03-18.1335</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
SEI	<p>Getting a Grasp on Actively Managed ETFs Before the Boom</p> <p>Summary or Abstract: Many regard exchange-traded funds (ETFs) as purely passive, beta-indexing tools for basic market exposure. To date, this has been generally true, but the rise of active management in the ETF space may well be the next step in its evolution. This brief examines the active ETF marketplace by evaluating:</p> <ul style="list-style-type: none"> ▪ Where active ETFs are now ▪ How they are different ▪ The SEC's impact ▪ The new wave of actively managed ETF sponsors <p>Web link: http://www.sei.com/enUS/about/11641.htm</p>	SEI	April 2013
Christopher B. Phillips, Francis M. Kinniry Jr. and Todd Schlanger	<p>The Case for Index-Fund Investing</p> <p>Summary or Abstract: Indexing refers to an investment methodology that attempts to track a specific market index (either broadly or narrowly focused) as closely as possible after accounting for all expenses incurred to implement the strategy. As a result of this objective, investors should expect an index fund to underperform its targeted benchmark by the amount of its expenses. This objective differs substantially from that of traditional investment managers, whose objective is to outperform their targeted benchmark even after accounting for all expenses. This paper explores the theory behind indexing as an investment strategy and provides evidence to support its use in investor portfolios. To do so, it examines the performance of a range of funds available to U.S. investors. It demonstrates that, after costs: (1) the average actively managed fund has underperformed various benchmarks; (2) reported performance statistics can deteriorate markedly once "survivorship bias" is accounted for (that is, once the results of funds that were removed from the public record are included); and (3) persistence of performance among past winners is no more predictable than a flip of a coin. It then compares the performance of actively managed funds with passive— or indexed—funds. It demonstrates that low-cost index funds have displayed a greater probability of outperforming higher-cost actively managed funds, even though index funds generally underperform their targeted benchmarks. We conclude that indexing can be a viable strategy for U.S. investors across a range of asset classes and markets.</p> <p>Web link: https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvComCaseIndFundInv</p>	Vanguard	April 2013
Towers Watson	<p>Building Better Beta – Our Approach to the Investment Process</p> <p>Summary or Abstract: Anyone who says that investing is simple probably is not doing it properly. It requires time, effort, big-picture thinking, fine-detail thinking, organisational capabilities, patience and persistence. There are, however, ways of simplifying the process and not making it more complex than it needs to be. Chief among these is embarking on the task with common sense and logic, which means beginning it at the start, not somewhere in the middle. Launching the investment process with a preferred set of assets and strategies in mind is not ideal. According to Towers Watson, they tend to spend considerable time with clients to define the 'mission' and what they are trying to achieve. It is a critical phase that involves plenty of talking, thinking not crunching numbers. This paper sets out and explains the investment process that they have developed over many years working with the world's leading institutional and private investors. It describes the thought and theory that is applied to every interaction they have with investors, and gives concrete examples of how the process works in practice.</p> <p>Web link: http://www.towerswatson.com/en/Insights/IC-Types/Ad-hoc-Point-of-View/2013/05/Building-better-beta-our-approach-to-the-investment-process</p>	Towers Watson	May 2013

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Edward Tower and Chao Yang	Is Traditional Indexation Passé? Vanguard Versus the Enhanced Indexers	Journal of Index Investing	Summer 2013
<p>Summary or Abstract: Vanguard provides low-cost capitalization-weighted mutual funds: traditional index funds. The asset allocation of DFA's core funds is determined by fundamentals as well as market cap. RAFI's allocation depends on four fundamental factors—dividends, cash flow, sales, and book equity value. WisdomTree's allocation is also determined by fundamentals alone. We compare returns of these enhanced index funds with corresponding Vanguard mutual fund portfolios. Focusing on U.S. funds only, DFA had lower returns than portfolios of Vanguard funds that mimicked their style; RAFI and WisdomTree out-returned Vanguard. Two cheers for enhanced indexation and one for traditional.</p>			
<p>Web link: http://www.ijournals.com/doi/abs/10.3905/jii.2013.4.1.070</p>			
<p>Pension Finance & Funding</p>			
John W. Ehrhardt, Alan H. Perry and Zorast Wadia	2013 Pension Funding Study	Milliman	March 2013
<p>Summary or Abstract: The de-risking activities that companies pursued in 2012 successfully reduced pension obligations for the top 100 U.S. pension plans. However, increased pension costs outstripped plan liability reductions, and the result for many plans was a drop in pension funded status from 2011. As year-end discount rates hit a record low of 4.02%, pension funding deficits for the companies tracked in the Milliman 2013 Pension Funding Study hit a record high of \$388.8 billion. This study covers the 100 U.S. public companies with the largest defined benefit pension assets for which a 2012 annual report was released by March 7, 2013.</p>			
<p>Web link: http://insight.milliman.com/article.php?cntid=8324&utm_source=eb&utm_medium=web&utm_content=8324&utm_campaign=EB%20Feature</p>			
Justin Owens	Members of the \$20 Billion Club Take Action to Address Growing Funding Deficits	Russell Investments	March 2013
<p>Summary or Abstract: The \$20 billion club collectively represents about 40% of the pension assets and liabilities of all U.S.-listed corporations. 19 members of the \$20 billion club ended 2012 with a combined pension deficit of \$220 billion, up nearly \$40 billion from 2011. While many are aware of the poor funded status of pension plans and their associated volatility on corporate financial statements, perhaps not as well known are the action steps that corporations have taken to address: changing markets, funding deficits, and contribution and balance sheet volatility. This paper concentrates on three key levers used by the members of the \$20 billion club during 2012:</p> <ol style="list-style-type: none"> 1. Future contributions 2. Asset allocations 3. Risk transfer, plus assumption changes 			
<p>Web link: http://www.russell.com/us/institutional-investors/research/members-of-the-20bn-club-take-action.page?</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Peter S. Austin	<p>MAP-21: Considerations for Plan Sponsors</p> <p>Summary or Abstract: The Moving Ahead for Progress in the 21st Century Act (MAP-21) offers defined benefit plan sponsors relief from the low interest rates that have decimated funding levels since 2008. Though MAP-21 seems to offer an attractive solution to funding shortfalls, sponsors should weigh expected returns and other factors to determine if it is right for their plans. MAP-21 effectively raises the discount rates used to calculate the net present value (NPV) of plan liabilities. However, this relief comes at the price of higher premiums for coverage by the Pension Benefit Guarantee Corporation. Other things being equal, these premium changes lower the return hurdle that would justify maintaining pre-MAP-21 contribution rates. Sponsors should seriously consider the option of continuing to contribute to their plans at the levels required under pre- MAP-21 rules. When analyzed using a model that considers investment returns, PBGC premiums, and the cost of capital, funding at new MAP-21 minimum levels may not represent the best choice. This paper suggests that plans potentially could benefit from continuing pre-MAP-21 funding policies, even if their expected ROA is as low as 7%. These findings hold under several projected yield curve scenarios, including both rising and falling rates.</p> <p>Web link: https://www2.troweprice.com/iws/wps/myportal/canada/perspectives_and_research/t._rowe_price_publications/investment_dialogues?v_link=Investment</p>	T Rowe Price	March 2013
Zorast Wadia	<p>Funded Status Measurements for U.S. Pensions</p> <p>Summary or Abstract: The annual funding notices that U.S. defined benefit plan sponsors are required to send their participants contain a huge amount of information, some of which is contradictory. So even with a wealth of data at their fingertips, it is difficult for individuals to really understand the funded status of their plans. In order to get a clear picture of a plan's status, it is important to understand which components are being used in the measurement and what implications a particular funded status may have for participants. This article outlines the many different funded status measurements that are used for U.S. pensions.</p> <p>Web link: http://insight.milliman.com/article.php?cntid=8363&utm_source=eb&utm_medium=web&utm_content=8363&utm_campaign=EB%20Recent%20Thinking</p>	Milliman	May 2013
Jim Gannon, David Phillips and Bob Collie	<p>A Corporate Pension Finance Handbook: A Practical Overview for Treasurers, CFOs and CIOs</p> <p>Summary or Abstract: Pension plans and the corporations that sponsor them have been stretched as never before. In the past year, this has been illustrated as some of the largest plan sponsors—GM, Ford, and Verizon Communications—have transferred pension risk out of their plans. Ultimately, the penalty for getting a plan's investment strategy wrong can be terminal, proven by recent bankruptcy filings citing a pension fund as a main cause. This handbook sets out to show plan sponsors how to:</p> <ul style="list-style-type: none"> ▪ Navigate pension liabilities in the face of new Pension Protection Act (PPA) requirements and the Moving Ahead for Progress in the 21st Century Act (MAP-21), ▪ Manage pension expense on the income statement, ▪ Understand the impact of defined benefit (DB) plan closure or freezing, ▪ See how interest rate volatility impacts the plan, and ▪ Look ahead to future pension accounting potholes. <p>Web link: http://www.russell.com/us/institutional-investors/research/a-corporate-pension-finance-handbook.page?</p>	Russell Investments	May 2013

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Ronald J. Ryan and Gregg Johnson	<p>The Role of Pension Contributions in Asset Allocation</p> <p>Summary or Abstract: Pension contributions tend to be viewed correctly as a cost or penalty due to pension assets underperforming pension liability growth. Contributions are calculated annually by the plan actuary and can be an unbudgeted item. Noticeably, contributions usually play no role in the asset allocation strategy of most pensions. Given the size of contributions today, it is critical that contributions are a major consideration in the asset allocation strategy. For many corporations, the contribution cost has risen as much as 5x to 7x the fiscal 1999 level. This research paper explores the calculation and role that contributions should play in asset allocation as well as the management of a pension.</p> <p>Web link: http://www.ryanalm.com/Portals/0/Research/TheRoleofContributionsInAssetAllocation1305.pdf</p>	Ryan ALM	May 2013
Pension Fund Management			
Greenwich Associates	<p>2012 U.S. Institutional Investors Study</p> <p>Summary or Abstract: This report provides detailed information on the top performing investment managers in U.S. equity, international equity and fixed-income investments. Greenwich Associates conducted 970 interviews between July and September 2012. Interview topics included product use, service provider evaluations, market trend analysis, and investor compensation. The data in this report is based upon aggregated results from individuals participating in the study.</p> <p>Web link: http://www.greenwich.com/greenwich-research/research-documents/greenwich-rankings/2013/mar/usii-im-us-2012-grt</p>	Greenwich Associates	March 2013
Greenwich Associates	<p>2012 U.S. Institutional Investors - Asset Allocation, Fund Management & Fees</p> <p>Summary or Abstract: This report provides detailed information on the U.S. institutional investment market, including benchmark data on:</p> <ul style="list-style-type: none"> ▪ Plan funding levels ▪ Asset allocations ▪ Manager hiring activity ▪ Fees <p>The research is based on personal interviews conducted from July through September 2012 with 970 of the largest tax-exempt funds in the United States. The data in this report is based upon aggregated results from individuals participating in the study.</p> <p>Web link: http://www.greenwich.com/greenwich-research/research-documents/market-trends/2013/mar/usii-mgmt-fees-2012-mt</p>	Greenwich Associates	March 2013
Jacob Antoon Bikker	<p>Is There an Optimal Pension Fund Size? A Scale-Economy Analysis of Administrative and Investment Costs</p> <p>Summary or Abstract: This paper investigates scale economies and the optimal scale of pension funds, estimating different cost functions with varying assumptions about the shape of the underlying average cost function: U-shaped versus monotonically declining. Using unique data for Dutch pension funds over 1992-2009, it finds that unused scale economies for both administrative and investment activities are indeed large and concave, that is, huge for small pension funds and decreasing with pension fund size. For administrative activities, it observes a clear optimal scale of around 40 thousand participants during 1992-2000 (pointing to a U-shaped average cost function), which increases sharply in subsequent years to size above the largest pension fund, pointing to monotonically decreasing average costs. As regards investment costs, it observes an optimal scale for total assets of around € 690 million and larger, without a clear shift over time and without diseconomies of scale for larger funds. The results are very sensitive to the correct functional form of the cost model. Consolidation among especially smaller and medium-sized pension funds would increase cost efficiency.</p> <p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2258989</p>	De Nederlandsche Bank	April 2013

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Chris Adolph and Travis Bagley	Fixed Income Transitions Come of Age	Russell Investments	April 2013
<p>Summary or Abstract: Hiring a dedicated manager for the transition of equities portfolios is now considered best practice for pension plan sponsors and fiduciaries. Yet still today fixed income transitions are often left unmanaged. Despite the opaque nature of fixed income markets, many of the trade- and risk-management practices in equities transitions have proved effective in fixed income transitions as well. Regardless of the asset class involved, a plan fiduciary should always seek to manage an investment transition in a manner that is consistent with the principles of prudence and due diligence. This paper shows why it is important to hire a fixed income transition manager and discuss the similarities and differences between fixed income and equity transitions.</p>			
<p>Web link: http://www.russell.com/us//institutional-investors/research/fixed-income-transitions-come-of-age.page?</p>			
Jagdeep Singh Bachher and Ashby H. B. Monk	Platforms and Vehicles for Institutional Co-Investing	Rotman International Journal of Pension Management	Spring 2013
<p>Summary or Abstract: A growing number of institutional investors are turning away from external asset managers and other intermediaries and are instead looking to one another for assistance. Through collaboration, these investors hope to lever a new set of network economies. Can they actually co-invest successfully to take advantage of these network effects? Differing return objectives and investment philosophies, as well as the basic challenge of geography, all complicate matters. Through a specific case study of a successful co-investment platform, and drawing on additional information collected from more than 20 onsite case studies of public pension funds and sovereign wealth funds around the world, this article offers insights into how institutional investors can structure platforms and vehicles that will align interests and facilitate co-investment.</p>			
<p>Web link: http://utpjournals.metapress.com/content/j8u128n70877847k/fulltext.pdf</p>			
Plan Sponsor	Securities Lending Is Back	Plan Sponsor	April 2013
<p>Summary or Abstract: In the aftermath of the financial shake-up five years ago, many defined benefit (DB) plan sponsors ended or paused their securities lending activities. From 2008 to 2009, securities lending saw significant disruptions because of liquidity issues. Demand for securities dropped, which led sponsors to evaluate securities lending activities, and, subsequently, many sponsors left the market. Over the last two years, however, sponsors have resumed securities lending. Still, securities lending has not returned to its pre-2008 levels.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492853&magazine=6442492822</p>			
Plan Sponsor	Technology and the DB Custodian	Plan Sponsor	April 2013
<p>Summary or Abstract: Technology is not just something that provides a competitive edge for defined benefit (DB) custodians—it has become the essence of their survival. Three developments have driven the increased dependency on technology: changes in asset allocation, the stiffening regulatory environment and the demand for value-added services. As the use of alternatives expands, the custodian business model must integrate with the accounting platforms and adapt to automatic functions and to supporting alternative classes.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492855&magazine=6442492822</p>			
David Blake, Alberto G. Rossi, Allan Timmermann, Ian Tonks, and Russ Wermers	Decentralized Investment Management: Evidence from the Pension Fund Industry	Journal of Finance	June 2013
<p>Summary or Abstract: Using a unique data set, this study documents two secular trends in the shift from centralized to decentralized pension fund management over the past few decades. First, across asset classes, sponsors replace generalist balanced managers with better-performing specialists. Second, within asset classes, funds replace single managers with multiple competing managers following diverse strategies to reduce scale diseconomies as funds grow larger relative to capital markets. Consistent with a model of decentralized management, sponsors implement risk controls that trade off higher anticipated alphas of multiple specialists against the increased difficulty in coordinating their risk-taking and the greater uncertainty concerning their true skills.</p>			
<p>Web link: http://www.afajof.org/details/journalArticle/4792961/Decentralized-Investment-Management-Evidence-from-the-Pension-Fund-Industry.html</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Pension Reform			
Frances Denmark	Can Multiemployer Pensions Build a 21 st Century Plan?	Institutional Investor	April 2013
<p>Summary or Abstract: A broad-based consortium of multiemployer pension advocates has targeted new pension models to bring creaky old-school benefits into the 21st century.</p>			
<p>Web link: http://www.institutionalinvestor.com/Article/3197664/Asset-Management-Archive/Can-Multiemployer-Pensions-Build-a-21st-Century-Plan.html</p>			
Frances Denmark	Following Dutch Model, New Brunswick Leads Canada's Pension Model Reforms	Institutional Investor	April 2013
<p>Summary or Abstract: As the financial crisis of 2008 exploded, the province of New Brunswick watched its private and public pension plans take a big hit. It soon became apparent that the usual band-aide-type solutions, like increasing contributions, were not going to work this time. After more than a year of studying pension systems around the globe, the province has adopted a "shared risk" model which sports the best features of the Dutch system: pooled assets that are professionally managed; strict and predictable funding requirements; and risk management procedures that cover both assets and liabilities. Now throughout Canada, and beyond its borders, pension stakeholders are starting to take note.</p>			
<p>Web link: http://www.institutionalinvestor.com/Article/3201429/Asset-Management-Archive/Following-Dutch-Model-New-Brunswick-Leads-Canadas-Pension-Model-Reforms.html?ArticleId=3201429&p=1</p>			
Kenneth Glenn Dau-Schmidt	Promises to Keep: Ensuring the Payment of Americans' Pension Benefits in the Wake of the Great Recession	Washburn Law Journal (forthcoming)	April 2013
<p>Summary or Abstract: This essay examines the problem of designing a pension plan within the context of the larger public policy of encouraging workers to save for retirement. It discusses the various problems and risks inherent in encouraging workers to adequately save for retirement, invest those assets efficiently, and ensure the planned level of retirement consumption for the remainder of their lives. It also discusses the three major types of pension plans in the American retirement system, defined benefit, defined contribution, and hybrid, and assess how well each of these types of plans deals with the problems encountered in designing a pension plan. It then examines the particular problems that have arisen because of the relatively recent transition from defined benefit to defined contribution plans, and the funding problems caused by the Great Recession. It closes with a section discussing policy changes that might be made to improve the pension system and help ensure that workers receive not only the pension benefits they were promised, but also adequate benefits to sustain them comfortably during their retirement.</p>			
<p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2253973</p>			
Meir Statman	Mandatory Retirement Savings	Financial Analysts Journal	May/June 2013
<p>Summary or Abstract: Nudges toward voluntary defined-contribution retirement savings have transformed many non-savers into savers but have left many behind. The author argues that it is time to switch from libertarian-paternalistic nudges to fully paternalistic shoves. He advocates a retirement savings solution centered on a paternalistic second layer of mandatory private defined-contribution savings accounts in a retirement savings pyramid, above the paternalistic first layer of Social Security and below the libertarian third layer of voluntary savings.</p>			
<p>Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v69.n3.3</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Niels Kortleve	The "Defined Ambition" Pension Plan: A Dutch Interpretation	Rotman International Journal of Pension Management	Spring 2013
<p>Summary or Abstract: As in many other countries, recent developments in demographics and financial markets are having a serious impact on pension systems and contracts in the Netherlands. For example, people living longer and being in good health is a major joint achievement of our welfare states and of medical science. However, these achievements demand a new approach to pension provision when tackling both longevity and aging societies. Traditional occupational DB pension provision has become too expensive for plan sponsors, and new solutions need to be found. On top of these trends we see an increasing individualization in European societies: people no longer participate in (mandatory) collective systems for the sake of solidarity alone; there needs to be a benefit for all. Sharing comparable risks at fair prices and costs has historically been well accepted, but redistribution of welfare in the name of intergenerational solidarity brings more discussion to the table. This article describes a new Dutch pension contract designed to address these challenges.</p>			
<p>Web link: http://utpjournals.metapress.com/content/px26lr65601h0646/fulltext.pdf</p>			
David S. Blitzstein	Restructuring Occupational Pension Plans in Crisis: A US Labor–Management Case Study	Rotman International Journal of Pension Management	Spring 2013
<p>Summary or Abstract: Defined benefit pension funds in the United States experienced material declines in funded ratios in the past decade. The events of 2008 coincided with the implementation of a new federal pension funding regime, the Pension Protection Act of 2006. This case study describes a unique pension agreement between a major American labor union and the sixth largest American employer, involving the merger of four underfunded multiemployer pension plans that restructured the legacy benefits through a financial transaction and redesigned future benefits and funding policy.</p>			
<p>Web link: http://utpjournals.metapress.com/content/f0j448457016516m/fulltext.pdf</p>			
<h3>Pension Risk Transfer & De-Risking</h3>			
Greenwich Associates	When It Comes to De-Risking, Actions Speak Louder Than Words	Greenwich Associates	March 2013
<p>Summary or Abstract: The U.S. defined benefit corporate pension market is bifurcating. On one side are a relatively small number of fully funded corporate plans that are taking down risk levels in their portfolios as they move to liability-driven investment strategies. On the other side is a much larger group of underfunded plans that have made significant progress in their planning, but because of their low funding ratio have not made substantial progress in their plans to de-risk. Greenwich Associates expects this tension between the need for investment returns and the desire to de-risk to continue as companies make decisions about their defined benefit (DB) plans in 2013. The report is based on in-person interviews conducted with 506 corporate fund professionals in the United States from June through September 2012.</p>			
<p>Web link: http://www.greenwich.com/greenwich-research/research-documents/greenwich-reports/2013/mar/im-corp-2012-gr</p>			
Sean Brennan and Jerry Levy	Pension Risk Transfers Revisited	Mercer	March 2013
<p>Summary or Abstract: This article explores some topical solutions for de-risking pension plans. It focuses on recent transactions by Ford, GM, Verizon and other large organizations to settle liabilities for deferred vested and retired participants either by offering an immediate cash payment or by purchasing an annuity from an insurance company. The article follows a conversation between a Mercer consultant and a fictional corporate executive who is responsible for drafting a recommendation for the company's retirement plan investment committee at the request of the board of directors.</p>			
<p>Web link: http://www.mercer.com/articles/pension-risk-transfers-revisited</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
SEI	Reducing Pension Liabilities: Understanding Buy-Ins, Buy-Outs & Lump Sum Payments	SEI	March 2013
<p>Summary or Abstract: Many plan sponsors seek risk strategies to help reduce their pension liabilities and gain better control of their impact on overall corporate finances. According to this poll, plan sponsors are considering the following risk reduction strategies in 2013:</p> <ul style="list-style-type: none"> ▪ 63% Liability driven investing ▪ 47% Lump sum payments ▪ 31% Closing/freezing accruals ▪ 16% Plan termination ▪ 14% Annuitization <p>While in 2012, several large US corporations took the route of annuitization with an insurance provider or lump sum payments, these options pose some challenges. This commentary provides an overview of the benefits and challenges of implementing buy-ins, buy-outs, or lump sum payments.</p> <p>Web link: http://www.seic.com/enUS/about/11455.htm</p>			
David Druley, Jeff Blazek and Amir Farahani	Pension De-Risking in a Low-Rate Environment—A Better Solution	Cambridge Associates	April 2013
<p>Summary or Abstract: Many market participants advocate de-risking plans, or “glide paths,” whereby exposures and/ or risk profiles are adjusted over time based primarily on changes in the funded status. Typically, these glide path blueprints de-risk as funded status increases by re-allocating funds out of the growth assets and into the liability hedge. In normal market environments, such a shift will reduce plan surplus risk but also reduce expected returns. In the current environment of bond overvaluation and historically low yields, this glide path approach results in a significantly larger drop in expected returns that can result in the need for higher contributions into the plan. This paper articulates an alternative solution—a flexibly constructed glide path that achieves the competing goals of reducing surplus risk and generating superior returns, while still reducing the risk of a significant decline in funded status. This glide path solution is implemented by reducing directional equity exposure (equity beta) and replacing it with strategies that are driven by alpha and “non-traditional betas” (such as distressed credit, hedge funds, and private investments).</p> <p>Web link: https://www.cambridgeassociates.com/research_center/Pension%20De-risking%20US.pdf</p>			
Greenwich Associates	Lump-Sum Buyouts Gain Traction Among U.S. Pension Plans	Greenwich Associates	April 2013
<p>Summary or Abstract: On the heels of last year’s historic lump-sum buyout activity, Greenwich Associates explores the drivers of the trend and presents a buyout case study. Last year saw a flurry of lump-sum buyouts by several major corporations looking to remove volatile pension liabilities from balance sheets and transfer risk to pension plan participants. Companies in the automotive industry led the way, with Ford and GM among the first to offer buyouts to plan participants in April and June, respectively. Automotive supplier Visteon Corporation executed its buyout program in September, and earlier this year, spoke to Greenwich Associates to share its experience.</p> <p>Web link: http://www.greenwich.com/greenwich-research/research-documents/greenwich-reports/2013/apr/im-12-lump-sum-2013-gr</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Zorast Wadia	MAP-21 and De-Risking Considerations	Milliman	April 2013
<p>Summary or Abstract: The Moving Ahead for Progress in the 21st Century Act (MAP-21), signed into law last year, was designed to bring about temporary contribution funding relief for sponsors of single- and multiple-employer defined benefit plans. Until MAP-21, the low interest rates that have dominated U.S. markets for the last four consecutive years were resulting in escalating plan liabilities. Because the impact of current interest rates is greatly muted under MAP-21, future interest rates and required contribution levels are more predictable. That is why many plan sponsors since the onset of MAP-21 have had multiyear contribution projection studies performed. The purpose of these studies is to understand the level contribution amount needed to smooth out contribution requirements over several years instead of dealing with the contribution spikes inherent with MAP-21 minimum requirements. Given the unknowns ahead, it is more important than ever before for pension actuaries to provide both technical MAP-21 assistance and risk management support to plan sponsors to guide them in their management of pension plans.</p>			
<p>Web link: http://insight.milliman.com/article.php?cntid=8342&utm_source=eb&utm_medium=web&utm_content=8342&utm_campaign=EB%20Recent%20Thinking</p>			
Plan Sponsor	DB Plan Risk Transfer: Plan Sponsors Play a Waiting Game	Plan Sponsor	April 2013
<p>Summary or Abstract: Risk transfer is on the minds of many defined benefit (DB) plan sponsors, but, with the current economic environment, it is more often planned for than actually done. GM and Verizon garnered a lot of media attention in 2012 when they bought annuities for a significant chunk of their retiree populations, but those moves were more the exception than the rule. Instead, sponsors are getting participant information together and preparing to transfer risk when conditions are right.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492852&magazine=6442492822</p>			
Plan Sponsor	Lump Sums More Common for Defined Benefit Plan Distributions	Plan Sponsor	April 2013
<p>Summary or Abstract: In recent years, many plan sponsors have amended their plans to allow participants to take lump sums when they terminate employment. The norm was different 10 years ago—lump sums were not a distribution option for anyone. The goal was to keep the money in the plan for as long as possible after a participant left. Employers preferred to hold on to the money in the plan because positive investment gains usually offset the need to make additional employer contributions. Additionally there was a perceived downside to paying out lump sums to terminated employees not retiring, because substantial “leakage” occurred—funds were spent rather than rolled over to an individual retirement account (IRA). Now, however, employers are more keenly aware of the interest and investment risk they retain when benefits remain in the plan. Therefore, they may attempt to de-risk their plans by offering terminated employees lump sums.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492851&magazine=6442492822</p>			
Performance Measurement			
Bob Collie and Charles Anselm	Measuring the Success of a Managed Volatility Investment Strategy	Russell Investments	March 2013
<p>Summary or Abstract: A new breed of investment mandates is growing in popularity. Going by names such as multi-asset, outcome-oriented and solutions-based investing, these mandates build a closer tie between the investor’s ultimate objectives and the instructions given to the investment manager. They replace the manager’s traditional goal – achieving incremental returns over those of the broad market – with a goal that has a more direct connection to the investor’s end objectives. This paper focuses on one implication of such a change: how to report investment results? It considers one example of a multi-asset strategy: a managed volatility portfolio. It discusses the implications of this approach and that multi-asset mandates need metrics that fit the specific objectives in mind, and that no single metric is necessarily sufficient to capture all of the goals of a multi-asset mandate.</p>			
<p>Web link: http://www.russell.com/us/institutional-investors/research/measuring-the-success-managed-volatility.page?</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Private Equity			
David Lovejoy	Private Equity Investing	Greycourt	March 2013
<p>Summary or Abstract: Once an investor decides to allocate capital to private equity, the first question is: "How should I go about it?" Properly structured, private equity can be the most rewarding sector of an investment portfolio. Unfortunately, most investors in private equity don't earn returns anywhere near what they need to compensate for the risks they have taken. The purpose of this paper is to summarize the private equity opportunity, identify the key risks, and outline a strategy for investing in private equity sensibly and profitably.</p>			
<p>Web link: http://www.greycourt.com/wp-content/uploads/2013/03/WhitePaperNo40Revised-PrivateEquityInvesting.pdf</p>			
David Lovejoy	Secondary Investing in Private Equity	Greycourt	March 2013
<p>Summary or Abstract: Secondary investments in private equity can be an attractive addition to primary private equity investments. They offer broad diversification across vintage years, industries, geographies, managers and investment strategies. Generally, capital is deployed faster than with primary commitments, reducing the time that commitments are held in reserve, and they have shorter life cycles than primary funds. Realizations usually occur more quickly, driven by the maturity of the interests acquired. This has the benefit of minimizing the impact of the J-curve. This paper will examine some of the key elements of secondary investing and of investing with secondary fund managers, and will provide a framework for evaluating secondary managers.</p>			
<p>Web link: http://www.greycourt.com/wp-content/uploads/2013/03/WhitePaperNo45Revised-SecondaryInvestingPrivateEquity.pdf</p>			
Public Sector Pension Plans			
Alicia H. Munnell, Jean-Pierre Aubry, Anek Belbase and Josh Hurwitz	State and Local Pension Costs: Pre-Crisis, Post-Crisis, and Post-Reform	Center for Retirement Research, Boston College	March 2013
<p>Summary or Abstract: This study examines the long-term effects of pension reforms on employer costs and on state budgets for a sample of 32 plans in 15 states. The results show:</p> <ul style="list-style-type: none"> ▪ for most plans, the reforms fully offset or more than offset the impact of the financial crisis on the sponsors' costs. ▪ for the sample as a whole, pension costs as a share of state-local budgets are projected to eventually fall below pre-crisis levels. <p>A few caveats: the projections assume that the reforms stick, that plan sponsors consistently make their required payments, and that they earn expected returns. Detailed results for each plan are available in a companion series of fact sheets.</p>			
<p>Web link: http://crr.bc.edu/briefs/state-and-local-pension-costs-pre-crisis-post-crisis-and-post-reform/</p>			
Pension Funding Task Force	Pension Funding: A Guide for Elected Officials	Government Finance Officers Association (GFOA) & Others	March 2013
<p>Summary or Abstract: This guide provides key facts about public pension plans, why it is essential to have a pension funding policy, a brief overview of the new GASB standards, and which issues state and local officials need to address. The guide also offers guidance for policy makers to use when developing their pension plan's funding policy.</p>			
<p>Web link: http://www.gfoa.org/index.php?option=com_content&task=view&id=2672&Itemid=220</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Greenwich Associates	U.S. Public Funds Pay Up for Possible Outperformance	Greenwich Associates	March 2013
<p>Summary or Abstract: U.S. public pension funds are on a quest for alpha. Facing precariously low solvency levels, diminished investment returns and little hope of receiving cash infusions from ailing states and municipalities, public pension funds are increasingly focused on returns. They are gravitating toward products perceived as providing greater opportunity for market outperformance. As part of that effort, they are shifting assets out of broad-based core mandates and into more specialized strategies and increasing allocations to alternative asset classes. One early consequence of this change in approach: Management fees are rising rapidly, and public pension funds now pay higher average fee levels than those incurred by their counterparts in the corporate sector. The report is based on in-person conducted interviews with 210 public fund professionals in the United States from June through September 2012.</p>			
<p>Web link: http://www.greenwich.com/greenwich-research/research-documents/greenwich-reports/2013/mar/im-pub-2012-gr</p>			
Matt Dobra and Bruce H. Lubich	Public Pension Governance and Asset Allocation	JCC: The Business and Economics Research Journal	March 2013
<p>Summary or Abstract: This paper analyses the relationship between governance, asset allocation, and risk among state and local government-operated pension systems in the United States of America. It argues that governance influences investment decisions and risk profiles of public sector pension systems, creating the potential for agency problems to exist between decision makers, plan members, and taxpayers.</p>			
<p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2236469</p>			
NASRA	Public Pension Plan Investment Return Assumptions	National Association of State Retirement Administrators (NASRA)	March 2013
<p>Summary or Abstract: Funding a pension benefit requires the use of projections, known as actuarial assumptions, about future events. Actuarial assumptions fall into one of two broad categories: demographic and economic. Demographic assumptions are those pertaining to a pension plan's membership, such as changes in the number of working and retired plan participants; when participants will retire, and how long they'll live after they retire. Economic assumptions pertain to such factors as the rate of wage growth and the investment return on the fund's assets. As with other actuarial assumptions, projecting public pension fund investment returns requires a focus on the long-term. This brief discusses how investment return assumptions are established and evaluated and compares these assumptions with public funds' actual investment experience.</p>			
<p>Web link: http://www.nasra.org/resources/InvReturnAssumption_Final.pdf</p>			
Andrew G. Biggs	Public Employee Pensions in Missouri: A Looming Crisis	Show-Me Institute	March 2013
<p>Summary or Abstract: This paper describes how public employee pensions currently measure their financial health; discusses the consensus among economists that current accounting rules significantly understate pension liabilities and overstate pension funding levels; and describes how pension financing would appear using accounting rules similar to those required for private sector pensions or for public employee plans in other countries. Following that is discussion of objections to fair market valuation. Finally, it discusses the costs and benefits of potential reforms, including shifting to defined contribution or cash balance pension structures.</p>			
<p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2237645</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
aiCIO	The Pure DC Public Plan: Those Who Need It, Can't Afford It	aiCIO	April 2013
<p>Summary or Abstract: Pension risk-transfers to insurance companies are peanuts compared with another brand of transfer still awaiting its big break: the pivot of a major public pension from defined benefit (DB) to defined contribution (DC). And if the GM/Verizon-Prudential deals are peanuts at this carnival—convenient and delicious to some, absurdly overpriced to others—then the public DB-plan-to-401(k) swap is Whac-A-Mole. Strong unions and mobilized members can beat down most any politician or pension overhaul bill. But as reformers pop their heads in more frequently, isn't it inevitable that, eventually, they start making it through?</p>			
<p>Web link: http://www.ai-ciodigital.com/ai-cio/april_2013#article_id=283872</p>			
Paula Sanford and Joshua Franzel	How to 'DB-ize' Your Supplemental DC Retirement Plan	Center for State and Local Government Excellence	April 2013
<p>Summary or Abstract: Acknowledging the growing importance of defined contribution plans, staff in the public sector have begun to analyze how to encourage greater participation in supplemental plans and to improve savings outcomes by making DC plans look more like DB plans. Some "DB-ization" tools may be more appropriate when DC plans serve as the primary retirement income mechanism (i.e., core plans), while others are appropriate for both supplemental and core plans. This article discusses the most common tools and why they may or may not work for your organization's supplemental DC plan. It highlights the steps governments should consider as the role of the supplemental DC plans they offer to their employees continues to expand.</p>			
<p>Web link: http://slge.org/publications/how-to-%e2%80%98db-ize%e2%80%99-your-supplemental-dc-retirement-plan</p>			
Frances Denmark	U.S. Public Pensions Get a Grip on Future Costs	Institutional Investor	April 2013
<p>Summary or Abstract: In the wake of the financial crisis, America's state and local pension systems have taken major cost reduction initiatives.</p>			
<p>Web link: http://www.institutionalinvestor.com/Article/3190788/Asset-Management-Archive/US-Public-Pensions-Get-a-Grip-on-Future-Costs.html</p>			
Kim Nicholl	Public-Sector Pension Plans: Major Challenges & Common-Sense Solutions	Segal Consulting	April 2013
<p>Summary or Abstract: Ensuring that state and local pension plan funding will be adequate to support promised benefits is a critical task for policymakers. Assessing funding adequacy starts with having a reliable measure of the plan's cost, in both the short and long term. For a defined benefit pension plan, an actuarial funding policy determines the ultimate cost of the plan and how much of that cost should be contributed in the current year. Then, if actual contributions are less than the actuarially determined cost, at the most basic level two options are available: 1) reduce the cost of pensions by restructuring benefits, and/or 2) increase the amount that public employers (i.e., taxpayers) and/or employees contribute to the plan. In some jurisdictions, modest changes in benefits or contributions will be sufficient to fill the gap, but in others, often where unfunded liabilities are large, more substantial revisions will be required.</p>			
<p>Web link: http://www.segalco.com/publications-and-resources/articles/GFR-4-13.pdf</p>			
Michael J. Sabin	CalPERS Funding Woes: Don't Blame the Stock Market	Social Science Research Network	April 2013
<p>Summary or Abstract: Public-sector pension plans administered by CalPERS face scrutiny because of large unfunded liabilities. The current underfunding is usually blamed on investment losses that occurred during the recent economic downturn. This paper finds that the true culprit is inaccurate actuarial forecasting, not investment performance. The paper looks specifically at the history of the City of Sunnyvale's pension plans over the past seventeen years. It finds that the normal rate of contribution was too small to keep up with the growth in liabilities, even under the assumption that investments earn their anticipated return.</p>			
<p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2257679</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Kevin T. Rich and Jean X. Zhang	Unfunded Public Pension Liabilities and Local Citizen Oversight	Social Science Research Network	May 2013
<p>Summary or Abstract: This paper examines whether unfunded public pension liabilities are associated with citizen oversight through legislative and electoral means in local governments. Using a sample of 121 municipal defined benefit pension plans between 2002 and 2005, it finds evidence that the growth in unfunded pension obligations is negatively associated with provisions allowing direct citizen participation in the legislative process when plans are administered locally. Furthermore, it finds that electoral voter activism in the form of recall attempts and the defeat of city council incumbents standing for re-election is associated with more conservative asset rate of return assumptions for local plans. Overall, the empirical evidence is consistent with citizen oversight mechanisms playing an important role in the pension funding decisions of municipal governments.</p>			
Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2261211			
Herbert A. Whitehouse	Fiduciary Accountability for Managing Funding Ratios in Florida's Local Government Pension Plans	Social Science Research Network	May 2013
<p>Summary or Abstract: Fundamental fiduciary investment practice standards require the development of an investment policy in order to further a plan's funding policy objectives. Until now, local government pension plans used almost the opposite approach. Under this old paradigm, local government plans used "long-term" investment policies regardless of the plan's financial and cash flow needs; and then used the "expected return" from that policy as the dominant element of a faux funding policy; namely, the actuarial valuation. On October 1, 2000, the City of Fort Myers had fully funded the accrued liabilities of its general employee pension plan. By October of 2010, plan assets were insufficient to cover any liabilities for either the accrued benefits of its covered active employees, or for the contributions that employees themselves had made to the plan. Moreover, only 83.2% of obligations for existing retirees were covered by assets, even at the high 7.75% discount rate used to value liabilities. This decline to 0% coverage also occurred in the large general employee pension plans of nine other Florida cities. The thesis here is that, at least in Florida, where a local government is required to make its ARC (actuarially required contribution) that this kind of decline is a result of funding policy discipline failures. The paper reviews the performance of a range of standard asset allocation portfolios to confirm that the market over this period was generally consistent with 7% expected returns, if not the above average actuarial expected return assumptions returns used by each of these 10 general employee pension plans.</p>			
Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2270527			
Real Estate			
Grace Bucchianeri, Paul Fiorilla and Marc Halle	Why Global Real Estate Securities?	Prudential	March 2013
<p>Summary or Abstract: Investors have many reasons to broaden their horizons into global real estate securities. The sheer size and growing importance of emerging markets will produce a host of opportunities outside the US, while diversifying enables investors to gain exposure to the economic drivers in multiple regions and has historically produced superior returns without added risk. What's more, today's market looks favorable for commercial real estate. Demand is growing as global economies recover, and the lack of new supply should produce favorable fundamentals.</p>			
Web link: http://research.prudential.com/documents/rp/PRU_Why_GRES_Mar_13.pdf			
Julie Segal	Despite REITs' Virtues, Institutions Still Favor Private Real Estate Funds	Institutional Investor	April 2013
<p>Summary or Abstract: Over a 30-year period, real estate investment trusts have beaten private real estate funds by an average of almost 5 percent. But pension funds, endowments and other institutional investors remain cool to REITs, partly because these publicly traded products are more volatile than private funds.</p>			
Web link: http://www.institutionalinvestor.com/Article/3198472/Hedge-Funds-and-Alternatives-Archive/Despite-REITs-Virtues-Institutions-Still-Favor-Private-Real-Estate-Funds.html			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
David M. Lee	The Case for Global Real Estate	T Rowe Price	April 2013
<p>Summary or Abstract: Allocation to a real estate portfolio can help generate alpha, while its profile enables it to provide greater diversification benefits compared to other traditional types of investments. Using a global approach opens up a much broader opportunity set. Investors typically are structurally underweight the asset class and, despite some concerns over market timing, this needs to be addressed by professional investors. The demand for real-estate investment remains enduring. Investment in listed global real estate is very much a long-term growth theme, which is only at the beginning of a long and sustainable cycle.</p>			
<p>Web link: https://www2.troweprice.com/iws/wps/myportal/canada/perspectives_and_research/t_rowe_price_publications/investment_dialogues?v_link=Investment</p>			
Retirement Planning			
Center for a Secure Retirement	Longevity Risk and Reward for Middle-Income Americans	Center for a Secure Retirement	March 2013
<p>Summary or Abstract: Living longer has its rewards. Middle-income retirees say they are having experiences in retirement that they never imagined, such as travel and volunteering. However, longevity also comes with risk, the two primary concerns being declining health that is associated with age, and the ability to create a sustainable retirement income that may need to last 20 years or more. This report looks at longevity's impact on the retirement experience of middle-income Americans and their view on the role Social Security plays as the cornerstone of retirement income.</p>			
<p>Web link: http://www.centerforasecureretirement.com/studies/</p>			
Jeffrey R. Brown, Arie Kapteyn, Erzo F. P. Luttmer and Olivia S. Mitchell	Complexity as a Barrier to Annuitization: Do Consumers Know How to Value Annuities?	Pension Research Council, Wharton School, University of Pennsylvania	March 2013
<p>Summary or Abstract: This paper provides experimental evidence that individuals have difficulty valuing annuities, and this difficulty – rather than a preference for lump sums – can help explain observed low levels of annuity purchases. Although the median price at which people are willing to sell an annuity is close to median actuarial values, people are willing to pay substantially less to buy a larger annuity. This supports the hypothesis that people use simplifying heuristics to think about annuities, rather than engaging in optimizing behavior. The findings raise doubt about whether most consumers can make optimal decisions about annuitization.</p>			
<p>Web link: http://www.pensionresearchcouncil.org/publications/document.php?file=1040</p>			
John Shoven	Efficient Retirement Design	Stanford Institute for Economic Policy Research	March 2013
<p>Summary or Abstract: The pension system in the U.S. has changed dramatically over the past forty years. Social Security benefits have been inflation indexed and many different benefit commencement options have been introduced. The predominant private pension system has switched from the old defined benefit system which typically provided monthly benefits for life to defined contribution programs such as 401(k) accounts which simply provide mutual fund account balances. This brief explains how to combine private defined contribution assets and Social Security so as to maximize one's standard of living in retirement.</p>			
<p>Web link: http://siepr.stanford.edu/publicationsprofile/2549</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Gopi Shah Goda, Colleen Flaherty Manchester and Aaron Sojourner	Do Income Projections Affect Retirement Saving?	Center for Retirement Research, Boston College	April 2013
	Summary or Abstract: One barrier to saving may be ignorance about how it translates into retirement income. This brief reports on the findings of a recent field experiment conducted with employees at the University of Minnesota to see whether providing them with retirement income projections affected the amount they saved. The results show that such projections, accompanied by information on retirement planning, could modestly increase saving. The experiment's positive effect on saving works, in part, by boosting individuals' knowledge and confidence. But its effect on saving is limited among those with who have difficulty paying bills, prefer to "live for today," or tend to procrastinate.		
	Web link: http://crr.bc.edu/briefs/do-income-projections-affect-retirement-saving/		
Prudential	The Modern Annuity	Prudential	April 2013
	Summary or Abstract: Annuities have been around a long time. But over time, the retirement landscape has changed—traditional defined benefit pension plans are going by the wayside in the private sector, and people are living longer in retirement. As a result, more and more retirees are faced with having to convert retirement savings into retirement income that can last 30 years or more. In response to the changing needs of retirees, annuities have evolved. This article takes a fresh look to see how today's modern annuities can play a role in your retirement income plan.		
	Web link: http://research.prudential.com/documents/rp/Modern.VA_FINAL_3-22-13.pdf		
Donald G. Bennyhoff and Colleen M. Jaconetti	Required or Desired Returns? That Is the Question	Vanguard	April 2013
	Summary or Abstract: Investors who seek help with financial planning often come prepared with a target in mind as the return objective for their portfolio. However, for many investors, return objectives are rather subjective and influenced by factors (such as advertisements of fund performance, other media, or just "keeping up with the Joneses") that tend to inflate expectations. After all, higher returns are "better"—all else equal—right? Of course, with investing, all else isn't equal: Higher returns are associated with higher risk in the long run. Other investors may insist they want no risk at all, ignoring the potential threat to their future wealth. Advisors who help clients understand the often-overlooked difference between required returns and desired returns can provide a valuable contribution to those clients' investment outcomes.		
	Web link: https://advisors.vanguard.com/VGApp/iip/site/advisor/researchcommentary/article/IWE_InvResReturns2?sf353915=1		
Michael Cembalest, S. Katherine Roy and Anthony Woods	The Importance of Being Earnest	JP Morgan	May 2013
	Summary or Abstract: Many Americans live for two to three decades after they retire. Without adequate planning, some may struggle to create sufficient savings and post-retirement income and suffer declines in lifestyle. This paper examines post-retirement dynamics for median income families that are heavily affected by the availability and use of qualified retirement plans, the balance between savings and consumption, and the level of portfolio risk they choose over time.		
	Web link: http://www.jpmorganinstitutional.com/pages/jpmorgan/am/ia/research_and_publications		
Ioulia Tretiakova and Mark S. Yamada	Dynamic DC: Keeping Your Options Open	Rotman International Journal of Pension Management	Spring 2013
	Summary or Abstract: Retirees face a tradeoff between two goals, payment certainty and liquidity. Annuities address the former at a cost of the latter. This article lays out an investment approach that aspires to achieve both goals. The heart of this approach is a dynamic investment strategy aimed at sustaining a steady income stream while also minimizing the risk of running out of money. The result is a defined-benefit-like outcome in a defined contribution pension-plan structure.		
	Web link: http://utpjournals.metapress.com/content/y2m2m86ng3r83174/fulltext.pdf		

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Risk Management			
Mike Sebastian and Zoltan Karacsony	Tales from the Downside: Risk Reduction Strategies	Hewitt EnnisKnupp	March 2013
<p>Summary or Abstract: Equity market volatility in the past decade has at times reached levels not seen since the Great Depression. The primary lever investors have to reduce total portfolio risk is a shift from return-seeking (equity, risky fixed income and alternative assets) to risk-reducing (fixed income) assets. But historically low fixed-income yields mean bond allocations won't likely contribute much toward total portfolio return objectives, while at the same time they carry risk in terms of falling bond prices when rates rise. Investors want a way to reduce risk, especially the risk of large losses in tail events, but without giving up much return. Consequently, a host of products advertised to reduce risk, without reducing return, have appeared since 2008. This paper discusses several potential strategies for limiting risk, including low volatility equity strategies, tail risk products, and managed futures and global macro hedge fund strategies.</p>			
<p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2114445</p>			
Robert C. Merton, Monica Billio, Mila Getmansky, Dale Gray, Andrew W. Lo, and Loriana Pelizzon	On a New Approach for Analyzing and Managing Macrofinancial Risks	Financial Analysts Journal	March/April 2013
<p>Summary or Abstract: At the fifth annual CFA Institute European Investment Conference on 19 October 2012 in Prague, Robert C. Merton gave a presentation on analyzing and managing macrofinancial risk. This article is based on his talk and on research he carried out with his coauthors.</p>			
<p>Web link: http://www.cfapubs.org/doi/abs/10.2469/faj.v69.n2.5</p>			
Economist Intelligence Unit	Closing the Communication Gap: How Institutional Investors Are Building Risk-Aware Cultures	Economist	May 2013
<p>Summary or Abstract: The financial crisis has changed how — and how much — institutional investors are focused on risk. This report discusses the actions they are taking and how they are performing. The report reveals findings of a study of 297 executive board members, C-level executives and senior-level employees from institutional investors across the globe. The report explores the risk functions within these institutions, effectiveness of risk-related communications and how risk issues are being represented in key decision making. It also reveals how risk functions can improve and how those with strong frameworks and integration within the business produce better investment outcomes.</p>			
<p>Web link: http://statestreet.com/wps/portal/internet/corporate/home/thoughtleadership/thevisionseries/publications/publicationsdetail/?ut/p/c4/pY09a8MwE1b_ShZ16XBn_BG5m0spplRNcJoQexEnR7GFZcnYikv_fY2hpUumcstxz3vPCyXMY2nSNXntLBk4QZml9000_DH1cMuPz7iJ33iw3XwEPIuggHJ9m6_hBcraODmbCiga7_sHhgyPepz1u6s0ulqaxifSRuGUI4NDeos-gWKngbqxBxStRu-4JTrsV3drXJVX83y-T-vs15ZvyPfwinhZ9UZLUXXeqFnMFjfyIMK9d1zjKclo77kX7X_k_fcucyDsKEY3ThUSLDgKdpfJYJRWmEIIQK9sqKwx76Njft6yX7BrxgmLc!/</p>			
Vineer Bhansali	Inflation Tail Risk Hedging	PIMCO	May 2013
<p>Summary or Abstract: In the aftermath of the 2008 crisis, the phrase “tail risk hedging” has entered the vernacular of financial market participants with a speed and intensity unmatched by any other market concept in recent memory. However, this concept so far has largely been limited to the hedging of risks related to rapid declines in equity-related markets. Policymakers are well aware of these equity market risks, which from a macro perspective are associated with a deflationary fat tail, and have flooded the markets with unprecedented amounts of liquidity – via low interest rates, an increasing quantity of money and outright asset purchases. These extreme measures, by most metrics, have resulted in a historically unprecedented set of market conditions and raise the question of whether there are other risk factors “under our noses” whose tail risks now need to be anticipated and proactively managed. This paper reviews what we know about observed and expected inflation, and then discusses practical techniques for hedging inflation tail risks.</p>			
<p>Web link: http://www.pimco.com/EN/Insights/Pages/Inflation-Tail-Risk-Hedging.aspx</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
SEI	Enterprise Pension Risk - Assess Corporate Risk Profiles to Set Long-Term Pension Strategies	SEI	May 2013
<p>Summary or Abstract: Thresholds of risk tolerance vary significantly by organization leaving many factors to consider when setting the asset allocation. Since the goal for most plan sponsors is to match the organization's risk tolerance to the portfolio strategy, an asset allocation tailored to better manage plan asset volatility and unexpected contribution demands is needed. This paper outlines important considerations for setting the asset allocations like:</p> <ul style="list-style-type: none"> ▪ What risks should be evaluated when setting the asset allocation? ▪ How should financial modeling be expanded as part of this process? <p>Web link: http://www.seic.com/enUS/about/11916.htm</p>			
Abdullah Z. Sheikh and Jianxiong Sun	The Blind Side: Managing Downside Risk in Corporate Defined-Benefit Plans	Journal of Portfolio Management	Spring 2013
<p>Summary or Abstract: Following the recession of the early 2000s, defined benefit corporate pension plans faced dramatic funding challenges. They had barely recovered before the recession of 2008 to 2009 sent funding ratios tumbling once again. Many plan sponsors must now make larger contributions than they originally budgeted, in order to bring their plans back to full funding. This article aims to deepen the current discussion of risk reduction in the context of defined benefit plans. It investigates two key issues. First, its authors analyze the effect of non-normality of asset returns on a defined benefit pension plan's liabilities. They argue that analytical frameworks that assume normality can lead to an underestimation of downside risk, a concern with regard to contributions. Second, the authors develop a multi-dimensional risk-management framework for managing contribution risk.</p> <p>Web link: http://www.ijournals.com/doi/abs/10.3905/jpm.2013.39.3.065</p>			
Alex Beath and Jody MacIntosh	Risk-Management Practices at Large Pension Plans: Findings from a Unique 27-Fund Survey	Rotman International Journal of Pension Management	Spring 2013
<p>Summary or Abstract: This survey-based study looks at the risk-management practices of large pension funds, relying on responses from 27 funds around the world with total assets of US\$2.7 trillion. The primary driver for differences in the number of full-time equivalent risk-management staff (risk FTE), which ranged from 3 to 96, is the complexity of the investment program. We explore differences in risk FTE across seven different risk activities and discuss sources of variation between funds. We also look at "new paradigm" risk-management practices, which have become more common among the participating funds, demonstrating that risk management has become much more prominent.</p> <p>Web link: http://utpjournals.metapress.com/content/1t01h9q83nt70581/fulltext.pdf</p>			
Leo Melamed, John W. Labuszewski, and Sandra Ro	A Perspective on Risk	Journal of Investing	Summer 2013
<p>Summary or Abstract: The past decade has demonstrated convincingly that virtually nobody in today's economy is immune or insulated from financial risks. The headlines are replete, on a daily basis, with stories regarding the subprime mortgage crisis, the U.S. fiscal situation, the European sovereign debt crisis, and the rising price of raw materials. While these situations have resulted in the well-publicized failure of several significant financial institutions in recent years, the impact often extends down to individual consumers and taxpayers. This article is intended to take a step back and examine the nature of financial risks in the modern world. Along the way, it discusses some of the major sources of risk and various measures of such risk, or "risk barometers."</p> <p>Web link: http://www.ijournals.com/doi/abs/10.3905/joi.2013.22.2.079</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Socially Responsible Investing			
Tessa Hebba	Impact Investing and Responsible Investing: What Does It Mean?	Journal of Sustainable Finance & Investment	April 2013
<p>Summary or Abstract: We hear a lot about impact investing these days, but what is it and how does it relate to responsible investing? As we know, responsible investing takes environmental, social and governance factors into consideration in investment decision making. Impact investing is a sub-set of responsible investing. Here the investor intentionally invests to achieve positive social and/or environmental impact in addition to financial return. It spans multiple asset classes that include real estate, private equity, infrastructure, public equities and fixed income. Impact investing goes by many names. These include double and triple bottom line, mission-related investing, program-related investment, blended-value, economically targeted investing and social finance. Often institutional investors believe that impact investing simply refers to micro-finance. But it also includes investment in affordable housing, clean technology, water systems, and transportation systems to name just a few.</p>			
Web link: http://www.tandfonline.com/doi/abs/10.1080/20430795.2013.776255			
David Wood, Ben Thornley & Katie Grace	Institutional Impact Investing: Practice and Policy	Journal of Sustainable Finance & Investment	April 2013
<p>Summary or Abstract: This article examines how public policy can and does play a role in enabling impact investing by U.S. institutional asset owners. We outline how government often plays a key role as underwriter, co-investor, regulator, procurer of goods and services, or provider of subsidies and technical assistance, thus enabling intentional investment for social and environmental benefits by asset owners. The article focuses on how policy intersects with the specific legal requirements and a distinct investment culture that often constrain the ability of institutions to invest with impact. These barriers must be taken into account for the institutional role in impact investing to grow beyond the current limited activity. Careful coordination between policymakers and institutional investors will be essential in building private investment markets that deliver positive social impact. The article concentrates on more narrowly construed impact investment policies. Examples include geographically targeted economic development, and energy-efficient real estate investments.</p>			
Web link: http://www.tandfonline.com/doi/abs/10.1080/20430795.2013.776256			
Sheila Healy Berube and Scott F. Perry	Few Implement Responsible Investing Even as Interest Grows	NEPC	April 2013
<p>Summary or Abstract: Few investors have implemented responsible investing initiatives, according to this survey. In addition, these organizations expect responsible investing to comprise a small part of their investment programs even five years from now. These low implementation rates are at odds with the increased interest in and greater awareness around this type of investing. NEPC sees anecdotal evidence of the potentially bigger role responsible investing may play in long-term portfolios.</p>			
Web link: http://www.nepc.com/research/120-few_implement_responsible_investing_even_as_interest_grows_nepc			
Sovereign Wealth Funds			
Dimitrij Euler	Impact Investment: Sovereign Wealth Funds, Corporate Governance and Stock Markets	Social Science Research Network	April 2013
<p>Summary or Abstract: In the light of the ever-dwindling resources that will be addressed by our future generation, impact investors invest in accordance with ethical and environmental principles going beyond financial performance. In particular, Sovereign Wealth Funds invest in assets worldwide in accordance with ethical and environmental principles and significantly influence the investment sphere and how enterprises are managed. Inspired by the success of the Norwegian Governmental Pension Funds addressing environmental, social and economic policies in their investment strategies, this paper elaborates responses to impact investors referring to disclosure obligation under corporate governance and stock market rules in the USA, the EU (UK and Germany) and Switzerland.</p>			
Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2265165			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Shai Bernstein, Josh Lerner, and Antoinette Schoar	<p>The Investment Strategies of Sovereign Wealth Funds</p> <p>Summary or Abstract: Sovereign wealth funds have emerged as major investors in corporate and real resources worldwide. After an overview of their magnitude, this paper considers the institutional arrangements under which many of the sovereign wealth funds operate. It focuses on a specific set of agency problems that is of first-order importance for these funds: that is, the direct involvement of political leaders in the management process. It shows that sovereign wealth funds with greater involvement of political leaders in fund management are associated with investment strategies that seem to favor short-term economic policy goals in their respective countries at the expense of longer-term maximization of returns. Sovereign wealth funds face several other issues, like how best to cope with demands for transparency, which can allow others to copy their investment strategies, and how to address the problems that arise with sheer size, like the difficulties of scaling up investment strategies that only work with a smaller value of assets under investment. In the conclusion, the paper discusses how various approaches cultivated by effective institutional investors worldwide -- from investing in the best people to pioneering new asset classes to compartmentalizing investment activities -- may provide clues as to how sovereign wealth funds might address these issues.</p> <p>Web link: http://www.aeaweb.org/articles.php?doi=10.1257/jep.27.2.219</p>	Journal of Economic Perspectives	Spring 2013
The Financial Crisis			
Mark Adelson	<p>The Deeper Causes of the Financial Crisis: Mortgages Alone Cannot Explain It</p> <p>Summary or Abstract: Losses on U.S. residential mortgage loans are too small to explain the magnitude of the 2008 financial crisis. Total losses, including both losses realized to date and those yet to be realized, should fall in the range of \$750 billion to \$2 trillion. The global magnitude of the crisis is significantly larger, probably in the range of \$5 trillion to \$15 trillion, depending on the measuring approach. This implies that losses on residential mortgage loans cannot be the main cause of the crisis. They can only be a trigger that unleashed the true causes. The failure (or near failure) of a significant number of major financial firms suggests that high leverage and strong risk appetites were important immediate causes of the crisis. However, explaining the sources of high leverage and strong risk appetites requires probing for deeper causes that developed over a longer period. This article proposes deeper causes that include securities firms' conversion from partnerships to corporations, the 30-year deregulation trend, the quant movement, the spread of risk-taking culture throughout the financial industry, and globalization.</p> <p>Web link: http://www.ijournals.com/doi/abs/10.3905/jpm.2013.39.3.016</p>	Journal of Portfolio Management	Spring 2013
Defined Contribution and 401(k) Plans			
Marc Fandetti	<p>Target Date Funds: Still Off Target</p> <p>Summary or Abstract: This paper looks mostly at the performance and risk of "shorter-dated" target date funds, defined as those intended for participants within roughly a dozen years of, or already in, retirement, using data provided by Morningstar. Such funds performed worse in the severe market crunch of 2008 – far worse in some cases - than investors were likely expecting. More importantly, they remain too aggressively invested on average and in many individual cases. The paper reviews the performance and current risk of shorter-dated TD funds (and what these could mean for future performance, particularly in rocky markets). Then, it looks at the risk (as measured by standard deviation) of shorter and longer-dated funds. Finally, it offers some suggestions for plan sponsors seeking less risky alternatives.</p> <p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2229424</p>	Meketa Investment Group	March 2013

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Stacy Schaus	DC Plan Sponsors: Now's the Time to Get More From Bonds	PIMCO	May 2013
<p>Summary or Abstract: It's perhaps the most important decision that affects Americans' retirement readiness: what investments to include in defined contribution (DC) plans such as 401(k)s. Companies sponsoring DC plans typically aim to promote diversification by offering choices that span asset classes and investment strategies. Yet behavioral research confirms that many DC participants simply spread their assets evenly across the core lineup. Since investment menus tend to be long on equities and light on bonds, diversification suffers. According to this article, it's time for DC plan sponsors to review their core lineups given equity levels at historical highs and interest rates at record lows. While paring equity offerings may be one step, it argues that reviewing fixed income lineups is another consequential move. The inclusion of active strategies with global exposure or additional income opportunities could help participants achieve successful retirement outcomes. Inflation-hedging assets also are fundamental for retirement savers and deserve their own place in DC core lineups.</p>			
<p>Web link: http://www.pimco.com/EN/Insights/Pages/DC-Plan-Sponsors-Nows-the-Time-to-Get-More-From-Bonds.aspx</p>			
Plan Sponsor	Gaining Traction	Plan Sponsor	March 2013
<p>Summary or Abstract: Target-date funds (TDFs) have been praised as a great way to help investors save for retirement, by conveniently putting their savings on autopilot and reducing risk over time. However, TDFs can be risky when used as a one-size-fits-all solution. Custom target-date funds are proving to be an apt solution to getting participants on the most suitable path, by tailoring their portfolios to specific demographics and implied risk tolerance. These TDFs allow plan sponsors to select which assets to include rather than choosing a prepackaged, "off-the-shelf" target-date fund from a vendor.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442491865</p>			
Plan Sponsor	The Sunny Side	Plan Sponsor	March 2013
<p>Summary or Abstract: Annuities could play a greater role in defined contribution (DC) plans as plan sponsors increasingly strive to help their participants successfully accumulate assets for retirement. Such products, however, have earned a reputation for high costs, complex structures and fiduciary obligations. But how much of that reputation is still true? The article discusses the strengths and weaknesses of annuities in DC plans.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442491856</p>			
Christine C. Marcks and John J. Kalamarides	Assessing Stable Value After 2008	Prudential	March 2013
<p>Summary or Abstract: Stable value has evolved significantly since the 2008 financial crisis. Investment guidelines are tighter, restrictions on transfers to competing funds broader, fees slightly higher. These new standards are creating a stronger and more sustainable asset class, better positioning plan sponsors and intermediaries to meet the long-term needs of their retirement plan participants. This paper explores the changes that have reshaped the stable value marketplace over the past four years, and can help plan sponsors and intermediaries determine whether stable value deserves a role in their retirement savings plans.</p>			
<p>Web link: http://research.prudential.com/documents/rp/AssessingStableValueAfter2008.pdf</p>			
Alison M. Martier and Seth Masters	Global Bonds – A Better Solution for DC Investors	AllianceBernstein	April 2013
<p>Summary or Abstract: Plan sponsors large and small are seeking ways to help plan participants achieve better outcomes. Over the last 30 years, compelling evidence has accumulated that suggests currency-hedged global bonds have a superior risk/return profile to US bonds, with more potential opportunities to add value. In this paper, we demonstrate that hedged global may be a better way to meet a DC plan's core bond objective, and we provide how-to guides for globalizing core menus and target-date funds.</p>			
<p>Web link: https://www.alliancebernstein.com/Research-Publications/White-Papers/Global-Bonds-A-Better-Solution/Stories/Global-Bonds-A-Better-Solution.htm</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Kip McDaniel	The Rise of Mega-Defined Contribution	aiCIO	April 2013
<p>Summary or Abstract: Defined benefit plans are closing and de-risking. Increasingly, politicians in Washington are involving themselves in retirement issues. Defined contribution is ascendant. This article discusses the role of CIEBA – the Committee on Investment of Employee Benefit Assets – the organization that represents America's largest corporate pension plans and the industry group under whose auspices corporate CIOs most frequently interact – and how that role is changing as well.</p>			
<p>Web link: http://www.ai-ciodigital.com/ai-cio/april_2013#article_id=283880</p>			
Charles Ruffel	The New Hybrid DC Plans in Corporate America	aiCIO	April 2013
<p>Summary or Abstract: Since the DC plan is now the primary American workplace savings mechanism, if viewed through a societal lens it still falls short on coverage (only about 40% of working Americans put money into a workplace plan, according to the Employee Benefits Research Institute) and on contribution rates. Simply put, not enough Americans have DC accounts, and those who do, tend not to save enough. In the large corporate marketplace, the first problem is no problem at all; almost all employees have access to the DC plan, generally with fewer and fewer vesting requirements. And the second problem is currently being vigorously tackled. The best DC plans from a participant standpoint are found at Fortune 500 companies. This article examines the best examples of latter-day DC plan design.</p>			
<p>Web link: http://www.ai-ciodigital.com/ai-cio/april_2013#</p>			
DCIIA	What's on the Investment Menu?	Defined Contribution Institutional Investment Association (DCIIA)	April 2013
<p>Summary or Abstract: Defined Contribution (DC) plans, like restaurants, can structure their investment menus in many ways – the trick is for the menu to best reflect the purpose of the plan. This paper seeks to provide a framework for designing DC menus to improve plan participant experiences and outcomes. First, it reviews how menu design has evolved historically; then it discusses the objectives and philosophies of various sponsors, and define menu construction frameworks for each philosophy. Finally, the paper presents considerations for creating an effective investment menu.</p>			
<p>Web link: http://www.dciia.org/info/publications/Documents/DCIIA%20What's%20on%20the%20Investment%20Menu%20%E2%80%93%20A%20Recipe%20for%20a%20Better%20DC%20Design%20%E2%80%93%20April%202013.pdf</p>			
Andy Apostol and Todd Copenhaver	Stable Value and Rising Interest Rates	Galliard Capital Management	April 2013
<p>Summary or Abstract: Stable value funds have long been one of the most widely used defined contribution investment options. Plan participants are drawn to this unique asset class because stable value seeks to preserve capital and outperform money market funds with similar or lower volatility. Given that market interest rates are near all time lows, many investors see a rising interest rate environment as an inevitability. If we are indeed faced with a paradigm shift in rates, it is important to understand how this shift might impact stable value portfolios from a portfolio risk and performance perspective. In order to provide an historical context that includes multiple interest rate cycles and diverse market environments, this paper first examines the dynamics of the stable value asset class over the past 15 years. It then looks toward a possible future of rising rates and explore how stable value might react to various interest rate shocks. Finally, this study concludes with an analysis of how current market expectations might affect a stable value portfolio.</p>			
<p>Web link: http://www.galliard.com/research-library-stable-value-perspectives</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Marc Fandetti	Against the Odds: Actively-Managed Funds in Defined Contribution Plans	Meketa Investment Group	April 2013
<p>Summary or Abstract: Active managers are employed heavily in DC plans. This suggests that plan sponsors believe that (1) participants know how “to use” an active manager properly, and (2) that active managers contribute to participant retirement security. This paper argues that the assumption that participants know when and how to “use” an active manager is mistaken. Additionally, information is reviewed that indicates strongly that active management has failed to enhance participant retirement security.</p>			
<p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2245697</p>			
Marc Fandetti	The 401(k) Blame Game	Meketa Investment Group	April 2013
<p>Summary or Abstract: The increasingly popular idea of the “failure” of the 401(k), where success is usually defined as degree to which personal accounts will provide for retirement security, has sparked a very public, very impassioned debate. In the search for scapegoats and solutions, the mutual fund industry and the brokers (“advisors”) who distribute their products have been singled out for much criticism; and rightfully so in many cases. As questionable as some industry practices are, the root cause failure of the 401(k) to live up to its promise is deeper. The reason that 50 million Americans may ultimately be betrayed by their 401(k) is not that mutual fund managers are overpaid, and that some advisors receive commissions. Rather it is that the 401(k) idea “works” when incomes and stock prices are rising, and doesn’t work when income growth and stock returns stall for a prolonged period. If lower returns cannot be offset with higher savings, balances will stagnate at best.</p>			
<p>Web link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2258568</p>			
Plan Sponsor	DC Distribution Options—Lots of Talk but Not Much Action	Plan Sponsor	April 2013
<p>Summary or Abstract: The big news in defined contribution (DC) distribution options for the last year is that there really is no news. Defined contribution distribution options are pretty much the same as they were half a decade ago. However, in the last two years, much discussion has occurred over what could be different. The main point of discussion is how to provide lifetime, guaranteed income to defined contribution plan participants. Firms are therefore exploring guaranteed earnings under investment-type vehicles or offering options to convert all or part of the distribution into an annuity.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492846&magazine=6442492822</p>			
Plan Sponsor	Education for 401(k) Plans Shifts to Emphasis on Participants’ Need to Save More	Plan Sponsor	April 2013
<p>Summary or Abstract: Education for 401(k) participants has changed considerably in 20 years. The industry once provided participants detailed investment information with the assumption that they were investment-savvy. Now, the industry recognizes that just a very small percentage of participants have that knowledge and plans provide tools for those who want to use it. The rise of target-date funds and other asset-allocation funds has altered the nature of investment education, as many participants no longer need to do their own asset allocation.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492845&magazine=6442492822</p>			
Plan Sponsor	Making Retirement Income Products Work	Plan Sponsor	April 2013
<p>Summary or Abstract: Ten thousand baby boomers are turning 65 every day. It is a problem begging to be solved. The problem, of course, is that many Americans nearing retirement have not put together a plan for their future budget and income. Retirement-income products could help, but, so far, they have made limited headway in defined contribution (DC) plans. The industry has been very good at giving participants options during the accumulation phase. The leg of the stool that is still missing is retirement. Once they reach retirement, then what?</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492835&magazine=6442492822</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Plan Sponsor	Plans Have Turned Back to Asset-Allocation Funds	Plan Sponsor	April 2013
<p>Summary or Abstract: Wells Fargo pioneered target-date funds for retirement plans in 1994. In those days, many employers' retirement benefits centered on a profit-sharing plan that put employees into a managed account rather than have them select their own investments. The common wisdom subsequently moved to participant do-it-yourself investment selection, but many plans found that offering 20 or 30 investment choices only helped produce sub-par participant results. Then the Pension Protection Act (PPA), with its safe harbor for automatic enrollment and a default investment, shifted the landscape again, with target-date funds the biggest beneficiary of a large-scale move to asset-allocation funds.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492836</p>			
Plan Sponsor	What Place Does Stable Value Have in 401(k)s?	Plan Sponsor	April 2013
<p>Summary or Abstract: Everybody is always trying to talk about the demise of stable value. The trouble is that participants love it. It dominates all other fixed-income assets in 401(k) plans. But questions remain about what place stable value now has in 401(k) plans. Twenty years ago, people had a 401(k) plan in addition to a pension plan, and having a stable value fund in a 401(k) made sense. But today's participants usually rely on only a 401(k) and long-term participants need investments with higher long-term returns.</p>			
<p>Web link: http://www.plansponsor.com/MagazineArticle.aspx?id=6442492837</p>			
TIAA-CREF	Prepared for a Lifetime	TIAA-CREF	April 2013
<p>Summary or Abstract: Plan sponsors today carry a heightened responsibility. Protecting the plan's assets is only one part of the equation. As employees grapple with a challenging economy and the growing burden of retirement decisions, plan sponsors should give equal attention to ensuring that employees will be ready for retirement. Reviewing plan investments and fees is a good first step. But you should also work with your provider or your plan's advisor to see if the plan has the best design, the best advice and the best provider support you can give to your participants. This paper will give you some clarity about those issues. It explores three aspects of plan management that have a significant impact on retirement readiness and plan outcomes:</p> <ol style="list-style-type: none"> 1. Building a strong foundation with a purposeful plan design 2. Delivering outcomes-based education and advice 3. Maximizing value for fees paid 			
<p>Web link: https://www.tiaa-cref.org/public/pdf/prepared_for_a_lifetime.pdf</p>			
Matt Clink, Rob Reiskytl and Kevin Vandolder	Improving DC Plan Investment Governance: A Call to Action	Hewitt EnnisKnupp	May 2013
<p>Summary or Abstract: Defined Contribution (DC) plans have grown to become the primary retirement benefit vehicle offered by employers. Passive reliance on automation, peer-based governance evaluation approaches, sub-optimal plan designs, inadequate attention to poor participant decision making, and inefficient investment option structures are not working well. This paper presents a call to action for DC plan sponsors.</p>			
<p>Web link: https://ctech.rproxy.hewitt.com/hig/filehandler.ashx?fileid=8687</p>			
Ray Dame and Christine A. Loughlin	A Discussion of Defined Contribution Plan Fees: One Plan Sponsor's Perspective	NEPC	May 2013
<p>Summary or Abstract: An important conversation is trending among plan sponsors and fiduciaries of defined contribution plans: the allocation of record keeping and administrative expense, i.e. who pays the record keeping fees and how equitable the different payment methods are. In this case study, one plan sponsor discusses the changes their company made to its 401(k) plan in 2010, which included charging participants a direct fee to participate in the program. Prior to the switch, the plan, like the majority of 401(k) plans, utilized funds which offered revenue-sharing as the primary means to offset the plan's administrative costs. The plan sponsor addresses some of the most commonly-asked questions about adopting this type of approach and the reactions they received from their workforce.</p>			
<p>Web link: http://www.nepc.com/research/123-a_discussion_of_defined_contribution_plan_fees_one_plan</p>			

AUTHOR(S)	TITLE	PUBLICATION	ISSUE DATE
Christine A. Loughlin and Ross A. Bremen	Target Date Funds - Tips for ERISA Plan Fiduciaries From the Department of Labor	NEPC	May 2013
<p>Summary or Abstract: At the end of February, the U.S. Department of Labor Employee Benefits Security Administration (EBSA) issued general guidance to assist plan fiduciaries with selecting and monitoring target date funds and other investment options in 401(k) and similar participant-directed plans. The fact sheet titled, "Target Date Retirement Funds—Tips for ERISA Plan Fiduciaries", quickly garnered attention and press, not all of it favorable, in part because EBSA did not follow a typical regulatory process in which language is proposed and a comment period follows. This paper discusses the document and its plain-English messages to plan fiduciaries on how to compare, select and periodically review defined contribution plan investment options.</p>			
<p>Web link: http://www.nepc.com/research/122-target_date_funds-tips_for_erisa_plan_fiduciaries_from_the</p>			
Stacy Schaus, William G. S. Allport and Justin Blesy	Global DC Plans: Similar Destinations, Distinctly Different Paths	PIMCO	May 2013
<p>Summary or Abstract: As the shift away from traditional defined benefit pension plans continues globally, workers are increasingly reliant on defined contribution (DC) pension schemes to build their own retirement income. Australia, the U.S. and the U.K. lead in global DC development, with 81%, 58% and 26% of all pension assets, respectively, held in DC plans at the end of 2012, according to Towers Watson. What's interesting is that while the retirement-income reliance on DC plans is similar across these three countries, plan design and investment management differ dramatically. According to this article, there are common principles that may improve success for DC plans globally. Of course, maximizing the amount contributed and retained is fundamental. Investment design, especially default strategies, is also vital to help build and preserve purchasing power and minimize volatility and market-shock risk.</p>			
<p>Web link: http://www.pimco.com/EN/Insights/Pages/Global-DC-Plans-Similar-Destinations-Distinctly-Different-Paths.aspx</p>			

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