CLIENT CASE STUDY

OUTSOURCING SOLUTION

$2 BILLION CORPORATE PENSION PLAN OUTSOURCED AND CUT INVESTMENT EXPENSES BY 50% PER YEAR

The organization

This corporate pension plan (the Plan) held roughly $2 billion in pension assets for more than 15,000 employees and retirees. A new treasurer was hired about 18 months prior, and the PBO funded status at that time was 65%. The treasurer determined the time was right to review the investment program with an eye toward simplifying the Plan's asset management structure and reducing costs.

Challenge 1: A complex pension plan

A review of the underfunded investment program revealed a very mature plan that faced the challenge of reducing the funding gap while also paying out approximately 10% of assets in annual benefit payments. This complexity combined with the desire to improve the funded status made it apparent that a status quo approach was unlikely to meet the funding and operational needs of the Plan.

Challenge 2: Outside firm core competency

The new treasurer was fully aware that running an investment function was outside of the firm's core competencies. He knew the challenge facing both the internal staff and investment committee in keeping their manager roster fresh, much less incorporating investment management best practices like real-time portfolio visibility and dynamic exposure management.

Primary concerns

The primary concerns for the new treasurer was the cost of running the Plan and its impact on the funded status targets.

Challenge 3: High asset management costs

Maintaining the legacy infrastructure and a complex approach to plan management carried significant hard and soft costs, adding to an already high hurdle to reducing the funding shortfall. In addition, the treasurer was interested in reallocating his scarce internal resources to corporate growth initiatives rather than the day-to-day management of legacy pension costs.

A strategic solution

Instead of working with a consultant, the Investment Committee decided that outsourcing to a dedicated OCIO would give the Plan the best chance of meeting its goals while allowing for an increased focus on the firm's core business. This approach would simplify the ongoing management of the Plan for the sponsor, provide access to real time portfolio management, and bring costs into line with industry best practice.

After inviting top tier providers to participate in an RFP, the Plan chose Russell Investments on the strength of its OCIO and dynamic portfolio management capabilities.

Why Russell Investments?

Russell Investments proposed a turn-key solution that better aligned the portfolio's investment risk with the Plan's overall objectives, provided access to a specific service team with direct experience as former corporate CIOs, and reduced costs.

The proposed solution included:

1. A new strategy designed to improve funded status and reduce reliance on corporate cash by re-risking the portfolio and harnessing market returns.
2. Engage Russell Investments for 3(21) advisory and 3(38) investment management roles at an overall fee that was about half as much as the prior cost of running the pension fund.
3. With such substantial assets under management (~$2B), the Plan was offered a choice of separate accounts or commingled funds. The Plan opted to invest in Russell Investments' commingled fund structure because they liked its operational simplicity and cost efficiency.
4. Russell Investments' informed rebalancing process that helps the Plan benefit from oversold and overbought market conditions.

The transition

Russell Investments handled the full transition on behalf of the Plan, providing an end-to-end solution that required minimal plan sponsor involvement. This transition maximized in-kind transfers of securities and was delivered at an actual cost that was 33% less than estimates.

As part of the transition to the new structure, the client wanted to dollar cost average their re-risking back into equities. Using a combination of transition management and derivative overlay services, the Plan was able to increase their equity exposure over a period of three months while gradually restructuring their underlying physical securities portfolio.

As an added benefit Russell Investments completed the transition with a 50% reduction in the number of trust accounts being used for the Plan, helping streamline operations and further reduce costs.

Results

By choosing Russell Investments as an OCIO partner, the Plan was able to:

- Improve funded status by 1% over the prior strategy
- Increase excess returns through Russell Investments' informed rebalancing process
- Reduce overall pension management costs by 50% year-over-year
- Entrust the Plan to a dedicated and experienced service team averaging 19+ years in the industry, freeing up existing staff to focus on core business goals

These results were achieved over the first 12 months of the arrangement.

QUESTIONS?

Call Russell Investments at **855-771-2966**
visit **russellinvestments.com/DB**

ABOUT RUSSELL INVESTMENTS

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IMPORTANT INFORMATION

This case study represents a unique situation faced by a corporate pension plan seeking to simplify the plan's asset management structure and reduce costs. Case studies are problem-solving stories. We select a situation that is indicative of problems clients in this category are facing. The recommendations described do not represent a standard strategy or set of recommendations made for all advisory clients with similar issues. Each client has unique requirements, challenges, and constraints, and our advisory solutions are tailored to each client's specific needs. Every client's situation, experience and needs are different, and Russell Investments does not imply that the solution herein is appropriate for any other client.

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Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

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