CalPERS switches to all-passive DC plans

Pension fund giant cites lower costs, participant preference for change

By **Jason Kephart**
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The California Public Employees' Retirement System's investment committee has voted to replace the stand-alone actively managed funds in its supplemental-income plans with passive options.

The $1.64 billion defined-contribution plans, including the $1.1 billion 457 plan, will be adding passively managed U.S. equity, international equity, short-term-bond, intermediate-term-bond and real-asset strategies from **State Street Global Advisors**, spokesman Joe DeAnda confirmed yesterday. An official announcement is expected sometime today.

The investment committee elected to drop actively managed U.S. small- and midcap value and growth strategies managed by The Boston Co. Asset Management LLC, international equity managed by Pyramis Global Advisors, short-term bond managed by Pacific Investment Management Co. LLC, and intermediate and Treasury inflation-protected securities strategies managed in-house.

"Passively managed funds are less costly and generally preferred by participants," investment consultant R.V. Kuhns wrote in a report about the changes, which it recommended.

The plans' custom target date funds also will be switched to passive management. Fees for the funds will drop to 6 basis points, from 52, because of the change.

CalPERS began flirting with the idea of moving to an all-passive portfolio in its more than $250 billion pension fund, the second-largest in the nation, this year. It's following a broader investment trend that is seeing new investments pour into low-cost passive options and out of higher-cost actively managed funds.

Just over $8 of every $10 invested in mutual funds and ETFs industrywide between 2002 and 2012 went into low-cost passively managed funds, according to **Morningstar Inc.**data collected by The **Vanguard Group** Inc., the largest provider of index mutual funds.

There was some consternation over CalPERS' move to all-passive funds.

“While the prior active lineup had not added value, we do raise this issue as it is an ongoing topic during the Investment Beliefs project. The projected fee decrease of 46 basis points (as an example used by staff) is significant, and the simplicity of a mainly passive portfolio is attractive,” Andrew Junkin, managing director and principal of Wilshire Associates Inc., wrote in an opinion letter to the CalPERS investment committee.

“However,” he continued, “to the extent that actively managed funds are desired by participants outside of the brokerage window, regardless of their success rate, the removal of active strategies could decrease the attractiveness of this plan to new or existing employees.”

Plan participants will still have the option to pick actively managed funds through a self-managed broker account.

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