PRESS RELEASE: US pension plans managers split on primary benefit of private assets

- *Majority of pension plan managers expect to see increase in private equity distributions over the next three years, Ortec Finance survey found*
- *Managers split on the primary benefit of private assets coming from the return - illiquidity premium, diversification, or inflation protection*

In recent decades, investors have turned to private asset classes, such as private equity, for various benefits including increased return and diversification. Now looking forward, almost three in four (74%) US pension plan managers believe distributions for private equity will increase over the next three years, and nine in ten (90%) say this will affect their pacing strategy, according to a new survey* from Ortec Finance, a leading global provider of risk and return management solutions for pension funds.

The survey targeted senior pension fund executives in the US whose plans collectively manage $670.4 billion in assets.

Distributions for private equity – the means by which private equity funds return capital to investors, which are paid when fund managers realize their investments in underlying companies or assets – have been low over the past years. But out of the 74% who expect distributions to be higher over the next three years, nearly two fifths (38%) say they will be much higher with 36% saying they will be slightly higher. Just 12% expect them to be lower and 14% expect they will be unchanged. This suggests pension managers expect to realize the return benefits of their private asset investments.

Along with understanding distributions, pension managers have to strategize how much to invest into private equity and other private assets. Nine in ten (90%) say their views on distributions have an impact on their pacing strategy, which is the consistent approach to committing capital to private investments with the goal of reaching a long-term target allocation. Of these, over a quarter (26%) say their views of distributions will have a considerable impact, with 64% saying it will have a slight impact. One in ten (10%) say it won't have an impact on their pacing strategy.

For pensions, investing into private assets creates liquidity constraints for their funds. However, two out of five (40%) of US pension plan managers said the most important reason for investing in private assets was their returns and illiquidity premiums, the Ortec Finance survey found. But in addition, around a third (34%) identified diversification as the most important reason for investing in private assets while 26% pointed to inflation protection.

Despite the benefits, the US pension plan managers surveyed see different levels of optimal exposure. The largest group of managers, half (50%) of those surveyed, deem a maximum allocation to private assets of between 20% and 30% reasonable for the fund they manage. For over a third (34%) of those surveyed this was between 30% and 40%, and for 6% this was as much as between 40% and 50%. A tenth (10%) of US pension plan managers surveyed said that their fund's maximum allocation to private assets is between 10% and 20%.

Thinking of the pension fund you manage, what do you deem a reasonable maximum allocation to private assets as a percentage of assets?	Percentage of pension fund executives choosing this level of allocation
10% to 20%	10%
20% to 30%	50%
30% to 40%	34%
40% to 50%	6%

Richard Boyce, Managing Director North America at Ortec Finance reflects on the tradeoffs made for the benefits of private assets including private equity: "We see with plans that navigating their private equity distributions and commitments is representative of the balancing act between liquidity and the varying pros of private asset classes. The survey points towards a growing belief that distributions for private equity are expected to increase in the future, which is a positive expectation showing that plans are about to reap the benefits from illiquidity premium.

"A majority of the funds in the survey allocate at least a fifth of their portfolio into private assets, so we can assume that for now private assets are firmly established on the pension plan investment agenda given their support in pension returns, diversification, and inflation hedging. To balance the costs of these three benefits, funds can model their excess liquidity constraints against several economic scenarios to ensure the benefits of private assets don't jeopardize the overall flexibility of the fund."

Ortec Finance provides solutions for pension plans to help address issues including low yields, complex liabilities, increasing investment performance analysis demands, and climate change related risks and opportunities. For more information on its software and services go to [Pension Funds | Ortec Finance]

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Notes to editors:

* Independent research company PureProfile surveyed 50 senior pension fund executives in the US across public, corporate, endowment and Taft-Hartley multi-employer pension plans managing around $670.4 billion worth of assets. The survey was conducted during November 2024.

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About Ortec Finance

Ortec Finance is the leading provider of technology and solutions for risk and return management. It is Ortec Finance's purpose to enable people to manage the complexity of investment decisions.

This is accomplished via the delivery of leading technologies and solutions for investment decision-making to financial and real estate institutions around the world. Ortec Finance's strength lies in an effective combination of advanced models, innovative technology, and in-depth market knowledge. This combination of skills and expertise supports investment professionals in achieving a better risk-return ratio and thus better results.

Headquartered in Rotterdam, The Netherlands, Ortec Finance has offices in Amsterdam, London, Zurich, New York, Toronto, Singapore, and Melbourne. Ortec Finance helps 600+ clients manage their $15 trillion assets under management.