US PUBLIC SECTOR PENSION PLANS INTEND TO BUILD ON INFLATION HEDGING SUCCESS

- Six out of seven have confidence in their inflation hedging strategy
- Funds are switching asset allocations to hedge against inflation, and all are concerned about the risk of stagflation

US public sector pension plan managers are confident that their plans are well hedged against inflation but still have worries about possible risk scenarios, new research* from Ortec Finance, the leading global provider of risk and return management solutions for pension funds and other institutions, shows.

The study with senior US public sector pension plan professionals who collectively help manage over $1.315 trillion, found 86% say their plan is well hedged against inflation - more than a quarter (26%) believe their plan is 'very well' hedged. The research from Ortec Finance, which has clients with over $15 trillion in assets under management and offices around the world including in New York, found just 12% believe the hedging at their plan is average.

The confidence in inflation hedging is not leading to complacency – managers are still active in changing asset allocations to hedge against inflation. Around two in three (66%) think they will increase allocations to commodities to help with this, while 50% will boost allocation to infrastructure investing. Some 32% will increase allocations to inflation linked bonds and 38% will increase allocations to gold to hedge against inflation.

The survey shows public sector pension fund managers still have concerns about the risk of stagflation – the combination of low growth and high inflation – for their investment strategies. Some 48% of those surveyed say they are very concerned while 50% say they are quite concerned. All those surveyed expect to see a change in actuarial assumptions on the expected inflation or discount rate.

Marnix Engels, Managing Director, Pension Strategy Ortec Finance said: "While public sector pension plan managers are generally confident that they have addressed inflation hedging on their funds, they aren't getting complacent.

“More work is being done in terms of asset allocations with commodities emerging as the clear favorite for increased exposure in the year ahead and there are some lingering worries that the US economy will not achieve the soft landing of lower inflation and rising growth.

“Pension plans need to manage their balance sheet effectively in order to achieve long-term objectives while dealing with short-term risks. That includes identifying major risk sources such as stagflation as well as looking at future contributions and funding levels.”

Ortec Finance models and maps the relevant uncertainties in order to help pension funds monitor their goals and decisions. It designs, builds, and delivers high-quality software models for asset-liability management, risk management, impact investment, portfolio construction, performance measurement and attribution and financial planning.

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Notes to editors:
* Independent research company PureProfile interviewed 50 US public sector pension fund managers responsible for a collective $1.315 trillion assets under management. The survey was conducted during February 2023.

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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 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.

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