Alan Biller: An Accidental Money Manager

Alan Biller and Associates – one of the largest independent OCIO firms on our latest OCIO list – announced the hire of John D. Skjervem as their new chief executive officer and we are pleased that Charles Skorina & Co was able to assist with the search.

Mr. Skjervem, currently chief investment officer at the mighty $111 billion investment division of the Oregon State Treasury, will be joining ABA in Menlo Park in early April.

A University of Chicago MBA, Mr. Skjervem joined the Oregon Treasury in 2012 after twenty-one years at Northern Trust, most recently as CIO for NT's $180 billion wealth-management unit.

The OCIO Industry and Taft-Hartley Pension Plans

As we noted in our 2019 OCIO (Outsourced Chief Investment Officer) report, the largest firms, including stand-alones like Alan Biller and Hirtle Callaghan as well as majors like Goldman Sachs and Mercer, continue to hire top talent and build infrastructure as the market grows.

By our bottom-up reckoning, discretionary assets rose from $1.98 trillion in the middle of 2018 to $2.38 trillion at June of 2019, a very impressive year-over-year growth rate of 19 percent!

ABA specializes in a sub-set of the OCIO matrix: the pension plans known as Taft-Hartleys (aka, "multiemployer," or just "union plans)."

These are not as well covered by the broader investment industry as, say, the endowment and foundation sector, but they are at the heart of ABA's success.

U.S. private pensions totaled about $25 trillion in assets as of year-end 2016 according to a recent OECD report.

There are about 1,400 multiemployer defined benefit and 1,100 defined contribution pension plans in the U.S. covering over 15 million participants with total assets exceeding $720 billion.

ABA advises approximately 15% of that, including by far the largest single defined benefit plan.

Who is Alan Biller?

Mr. Biller earned degrees in philosophy from Yale (BA), University of London (M.Phil), and Columbia (Ph.D.). And, after two years teaching at Pomona College he received an NEH fellowship to study medieval Islamic philosophy and classical Arabic at UCLA.

Reasoning that an academic leader should also know something about marketing and finance, he went off to Harvard and added an MBA to his stack of degrees.

But instead of returning to the classroom — and over the advice of some Harvard faculty who thought he should try investment banking — he accepted an offer from the management science group at Wells Fargo Bank.

Alan made his contribution to Wells Fargo by leading the team which created the first “closed-form” stochastic asset-liability pension model. (Alan still owns the rights to PensionOptions ™, which he licensed for some years to pension consultants around the world.)

This cadre of bright young men at Wells Fargo set about inventing modern quantitative finance in San Francisco in the 1970s with primitive computers and some wild new ideas.

Consultants at WFB's famous financial skunk works included William F. Sharpe, who won a Nobel Prize in economics in 1990; Barr Rosenberg, who founded pioneer quant group AXA Rosenberg; and many others who rose to eminence in the 80s and 90s.

[*Historical note: Back then, Wells could have become the king of index investing, but didn't. Their management science group worked out the basic design and software for the first index fund (for the pension fund of the Samsonite Luggage Company).*

The Wells Fargo Investment Advisor unit was formed to market these radical new products, but ultimately the bank sold half the company to Nikko then all of it to Barclays, rebranding the group as Barclay's Global Investors (BGI).

Larry Fink, spotting an opportunity, acquired BGI and its iShares products when Barclays struggled during the financial crisis in 2009. *With the purchase, BlackRock became, at one stroke, one of the juggernauts in modern index investing*.]

After leaving Wells, Alan ran the investment industries department at SRI International; then left to help Bank of America acquire Charles Schwab.

A consulting project in 1983 ultimately led to Alan's long-term role as fiduciary consultant to one of the country's largest pension funds. Thirty-five years later, assets have grown to $100 billion (as of Dec 31, 2019), of which $47 billion are regulatory OCIO assets under management.

After working out of a kitchen, a garage and an office above a delicatessen, in 2005 the firm moved to respectable offices in Menlo Park and now has professionals working in Seattle, Boston and Washington D.C.

Despite record-low interest rates and expected returns, Dr. Biller is pleased – as are his clients – that year-to-date performance is comfortably in the black and on the way to meeting their funding requirements.

Alan Biller would be the last to claim that his advice or management alone explains that success. Good board governance has certainly played a key role.

Nonetheless, the trust his clients have reposed in him for almost forty years speaks for itself.

A Conversation with Dr. Biller

Skorina:

Alan, you deal with prospective OCIO clients on a daily basis. What do you think is driving the growth in this niche?

Biller:

The effort by corporate pensions to de-risk and off-load their retirement liabilities probably accounts for the lion's share of the AUM growth.

U.S. private pensions totaled about $25 trillion in assets as of year-end 2016 and endowments, foundations, health systems, charities, etc., account for maybe a tenth of that: $2 to $2.5 trillion.

So, that big jump you see in your list is bifurcated. The growth rate for pension assets is probably well over 21 percent. The growth rate in E&F is, I suspect, more modest than that.

Pension investors can't go to their employees for more money to meet unanticipated expenses, and they have no flexibility over distribution.

There are no rewards or promotions for meeting pension obligations; just the prospect of embarrassment if they can't. It's understandable why they're looking for ways to outsource the headaches!

Skorina:

OK, we get that the E&F sector is relatively small in the total institutional world and probably hasn't contributed more than $10 or $20 billion to that year-over-year OCIO growth. But they're still very desirable clients to OCIO vendors. And we know you talk to a lot of them. What are they saying about their needs?

Biller:

First, they're worried about returns. The last year has been great, but don't forget that trailing 10-year returns have still been pretty poor for most institutions, with many falling short of their long-run targets. Public market volatility has been high and, having been badly burned in 2009, they're still worried about risk.

Meanwhile, university cost pressures are increasing, foundations struggle to maintain their level of grant-making, and health-delivery systems are being crushed under regulatory and pricing loads.

All this is making it very tough for volunteer board members and trustees. And you could add the rising emphasis on ESG and PRI investing (Environmental/Social/Governance and Principals of Responsive Investing).

There is a widening gap between the hours available from boards and committees on one hand, and the increasing complexity of their responsibilities. I call it the "fiduciary gap." You referred to it as "meeting fatigue" in one of your newsletters. It's the same thing. There's just so much you can reasonably ask of volunteer trustees who often have demanding day jobs.

Skorina:

There's no doubt that ESG investing is more than a fad. Not long ago, Barnard College in New York switched their OCIO mandate from Investure to Strategic Investment Group because they needed more flexibility and expertise in that area to execute their divestment program. That's a $356 million pickup for SIG.

Biller:

When I ask a visitor why they are thinking about OCIO, I'm seldom asked about my asset-allocation views, or which managers I use. Their concerns are more fundamental than that. They want to know: How can I keep my money safe?

Pension plans worry about paying their retirees while staying solvent. Endowments and foundations worry that they may have to cut programs if the markets turn sour.

The people I talk to have a lot of promises to keep in a very uncertain world. They're looking for someone they can trust. All of the technical issues come much later in the conversation.

Skorina:

Alan, what are expectations as you go forward with your new CEO?

Biller:

First, as chairman of the firm, I will continue to be very much involved with firm strategy, investment policy and in serving our longstanding clients. I'm not going anywhere.

John Skjervem's deep experience and manifest talent in large-scale asset management adds another powerful string to our bow. He is going to be a huge asset going forward.