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By Bridget Hickey September 2, 2021

The $33.9 billion **Employees Retirement System of Texas**, known as ERS, will eliminate opportunistic credit as a separate asset class in its portfolio and instead reallocate funds in the strategy to fixed income and special situations sleeves.

Trustees voted to approve the reallocation, which accounts for 3% of the portfolio, at a meeting on Aug. 25, a spokesperson for the pension told FundFire by email. The fixed income bucket will get two-thirds of the allocation and the rest goes to the special situation sleeve.

The opportunistic credit strategy, which was adopted in 2017, had been constrained by several factors, according to a memo prepared by staff for the board. The pace of capital deployment was initially slowed by internal team restructuring. Then, in 2019, the pension reduced the three investment teams managing opportunistic credit investments to one: ERS' hedge fund team. The strategy's implementation was further constrained by the onset of the pandemic, which impeded due-diligence efforts and lowered expected rates of return by the time pension staff were able to invest in the asset class, the memo details.

During that time, the pension's fixed income team "added depth" to the fund's opportunistically driven $1 billion global credit portfolio, which is approximately 20% managed by external advisors, according to the memo. These externally managed investments include capital deployment to structured credit, distressed and special situations, direct lending, real estate and other idiosyncratic strategies.

"After a considerable thought process and review of internal resources, we believe Opportunistic Credit investments are more appropriately managed by Fixed Income which now has a dedicated team experienced in opportunistic credit," the memo states.

Pensions are moving away from core fixed income as they seek to make a tradeoff between volatility and yield, said **Michael Rosen**, principal and CIO at **Angeles Investment Advisors**.

"If you're looking for reasonable steady income, with low volatility, it doesn't exist anymore," he said. "That's just the world we live in."

Some pensions are broadening out their fixed income buckets, which typically focused on investment-grade public securities, to try and achieve higher returns in the low interest rate environment, said **Eileen Neill**, a senior consultant at **Verus**.

“There's willingness to include strategies that may have an illiquidity component to them, strategies that may be very idiosyncratic,” she said.

Instead of having separate sub asset classes for strategies such as structured credit or opportunistic credit, pensions are combining these with other fixed income or income-oriented assets to create a bigger income bucket, she added.