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Texas Pension Cuts Hedge Fund Exposure by 1 Percentage Point.

The Teacher Retirement System of Texas, the sixth-largest U.S. public pension, cut its hedge fund allocation by 1 percentage point, three days after the nation's largest fund, California Public Employees' Retirement System, announced it would divest entirely from the asset class.

The board of the $126 billion Texas system approved the change today following an asset allocation study, Howard Goldman, a spokesman, said by e-mail. Texas will reduce hedge funds to 8 percent of the pension from 9 percent, according to board documents.

State pensions across the U.S. have turned to hedge funds to solve the growing problem of paying for retiree benefits. State funds last year had 75 percent of the assets needed to satisfy expected claims, according to Wilshire Consulting. States and localities in March faced a $1.4 trillion funding gap for meeting future benefits.

Besides reducing its bet on hedge funds, the Texas pension lowered the portion of assets it gives to equities by 4 percentage points and to fixed-income securities by 2 percentage points, while adding 5 percentage points each to risk parity and private markets, according to board documents. Risk parity is a strategy for investing based on allocation of risk and private equity and real assets.

"These new allocations are expected to be funded from a diverse set of asset classes across the trust in order to increase the overall probability that TRS will be able to achieve the 8 percent actuarial return target," according to a statement provided by Goldman.

Calpers, with assets of $298.8 billion, said Sept. 15 that it would eliminate its $4 billion allocation to hedge funds. The Sacramento-based pension said the investment vehicles were too complex, costly and small to affect performance.

Texas Teachers' has an unfunded liability of about $28.9 billion, meaning it has 80.8 percent of the assets needed to fund future payments to retirees.

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