Texas Municipal Pension Moves Funds to Loans From Bonds, Equity.

The Texas Municipal Retirement System is investing $250 million in bank loans as it shifts money from equities and bonds.

Highland Capital Management LP will invest the money for the fund in senior secured bank debt and collateralized loan obligations, said Mark Okada, co-founder and chief investment officer of the Dallas-based investment adviser. Highland, which manages $17.7 billion of assets, will target large, liquid, high-quality loans, Okada said.

"The floating rate nature of bank loan/CLO debt coupons is particularly attractive in the current low yield environment where the risk is exposure to higher interest rates," Bill Wallace, director of communications of Texas Municipal, wrote in an Oct. 11 e-mail.

Highland announced it was selected Oct. 8, after the retirement fund's board of trustees approved a search for managers June 19 to invest as much as $2 billion in bank loans, CLOs, emerging-market debt and mortgage-backed securities, according to meeting minutes. The $2 billion, equal to about 10 percent of the Austin, Texas-based pension fund's $21.3 billion of assets, was shifted from passive equity and core fixed-income allocations, according to March meeting minutes.

"A lot of conservative pension plans like Texas Municipal have a lot of bond exposure," Okada said in an Oct. 9 telephone interview. "Now those bonds that have been performing extremely well for them are the problem, especially if rates are going to be rising."