
Next Crisis in Finance May Be Public Pensions, $1.2 Trillion Asset Manager Says.

- **Municipalities, states are pressured by funding shortfalls**
- **Head of asset manager also sees equity markets being reshaped**

What's on the list of concerns for a man who runs a $1.2 trillion asset manager? Swelling shortfalls in U.S. public pensions, according to PGIM Chief Executive Officer David Hunt.

"If you were going to look for what's the possible real crack in the financial architecture for the next crisis, rather than looking in the rearview mirror, pension funds would be on our list," Hunt said Friday in an interview. Pressure on municipalities and states will intensify in a downturn when local tax revenues decline and unemployment worsens, he said. "So we're worried about those pension obligations."

Lawmakers from New Jersey to Illinois to California are struggling to fill shortfalls. U.S. public pensions had 71.8 percent of assets required to meet obligations to retirees as of the fiscal year ended June 2016, according to a report by the Center for Retirement Research at Boston College.

PGIM, owned by Newark, New Jersey-based Prudential Financial Inc., counts 147 of the 300 largest global pension funds among its clients. Hunt said that corporate funds generally do a better job than their public counterparts.

Hunt acknowledged that it's harder in the public pension space where lawmakers set the benefits and the fund managers are tasked with generating enough return to cover those promises. Still, he said he has advised public-pension clients to stop looking for the highest-return hedge fund and "start doing what the corporate folks have long been doing, which is to find ways to minimize the deficit and to take risk gradually off the table."

Hunt joined Prudential in 2011 from McKinsey & Co. He's doubled assets under management, renamed the business PGIM and bought a Deutsche Bank AG unit to expand in India.

In the interview, Hunt also said he's seeing a shift in equities markets as more firms pursue private funding and initial public offerings "remain remarkably muted." The number of publicly traded U.S. companies shrank from more than 8,000 in 1996 to about 4,300 in 2016, according to Ernst & Young.

"More than any other period in our history we're going to have companies that are owned by private equity rather than the public equity markets," Hunt said. "The dynamism and growth of the economy is now more and more being captured privately and by institutions rather than actually available for you to own in your 401(k) account or for other public markets."

Hunt said he doesn't expect a wave of combinations among asset managers, even as some have predicted that fee pressure could provoke more tie-ups such as the merger of Janus Capital Group Inc. and Henderson Group Plc. Even as the equity business suffers, it hasn't gotten bad enough to spur more mergers and acquisitions, he said.

"If you're a modestly scaled equity business right now you're having a hard time, but you're not losing money yet," he said. "You're more likely to have what I've kind of called the field of zombies. You have these firms, they don't disappear. They stop growing and maybe they're even shrinking, but they carry on."

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