

Reassessing Retirement Savings with Robin Diamonte

Disruptive Forces in Investing

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Anu Rajakumar: Innovative, visionary and empathetic. These are some of the qualities that define Robin Diamonte, Chief Investment Officer of RTX. With a career marked by excellence and innovation in investment management and a steadfast commitment to promoting financial equity, Robin's leadership has been instrumental in shaping the industry's approach to pension management.

My name is Anu Rajakumar, and today I have the great privilege of delving into the insights and experiences that have helped shape the remarkable career of Robin Diamonte. So, with that said, Robin, welcome to *Disruptive Forces*, and thank you so much for joining me today.

Robin Diamonte: Thanks, Anu. It's really great to be here.

Anu Rajakumar: Now, Robin, you've had a remarkable career journey from working as an engineer on a nuclear sub to becoming the chief investment officer of United Technologies and now RTX, where you oversee one of the largest corporate pensions in America. In addition to that, you were appointed by President Obama to the Pension Benefit Guarantee Corporation in Advisory Committee, you're the former chair of the Committee on Investments of Employee Benefit Assets, also known as CIEBA, and you serve on the board of Morningstar. That's quite the resume.

So, Robin, tell us a bit more about that journey and, importantly, about the lessons that you have learned along the way that you think really have shaped your approach to investment management and leadership.

Robin: So, Anu, it really has been a very different career journey. I did start out as an electrical engineer. I worked my way to being a research analyst at Verizon, and I did that by literally starting, underneath the portfolio managers' computers, helping to connect their hardware and helping them learn how to use their software packages, but it's been a journey in that, I've experienced very different types of companies and customers. And I think that that's what makes a good leader, is somebody who can actually go to a job and say, you know, who is my customer? What do I have to accomplish? What's my mission? And what does my deliverable look like?

And when you do that, and you're able to build a team to help you with that deliverable, that's when you really can be successful. So even though I'm an investor and I've been an investor in a lot of different areas, you know, you have to really come with a different approach. It's not always about having the best investment return. And that's what I think what a good leader is, right? So, most investors in my world just want to beat their peers, they want to show off their numbers, but when you work for a corporate plan sponsor, it's a little different, right?

You have to have your fiduciary hat on, and you have to say, you know, what is my mission? And my mission is to make sure that as a fiduciary, my participants in the plan who have worked forever in their job can retire with financial security. So, my mission is really to make sure that the pension plan is fully funded. And it doesn't matter how sexy, the investments that I'm in or what kind of return I have, what's most important is that I'm delivering the return that we need in a risk-adjusted way, in a stable way, and at the same time, I am making sure that the company is successful.

And by that I mean in the corporate world, our investment returns and the volatility in those returns can sometimes affect the earnings per share of a company the way the accounting works. So, therefore, you have to make sure that your results, don't influence the financial results of the company. So, I guess what I'm saying is that, you know, leadership really depends on your mission.

Anu: Absolutely. I love that. So that mission focus, kind of the foundation of your career has been mission-focused. And as you think about delivering the returns that you need, in a stable way, what's important there is, is also innovation, right? Markets change and evolve over time. And, as a side note for those who don't know, you're the recipient of not just one but two-lifetime achievement awards for outstanding contributions in the industry. And part of that has been because of your innovation that you've displayed over the years.

So, Robin, could you share some of those key innovations or strategies that you've implemented, in managing corporate pension plans, and maybe particularly during the tough times, the market downturns, the company restructurings. I'm sure you've seen it all and you've had to be nimble and, you know, adjust along the way.

Robin:

Yeah. You know, one of the things that you have to keep in mind always is that the markets endure. And, you know, new fads will come, and it seems like it's the end of the world and there's another depression or recession or the bubble busts or there's a pandemic, but there's always dry powder out there. There's always people that are waiting to jump in when the markets stabilize.

So, when you're responsible for a very large pension fund, you have to keep strategy in sight, not to panic, you know, you need to have your team focused. You're always thinking about risks and leverage, but at the same time, you're focused on strategy. And it's really important to not get distracted by some of the fads, but at the same time take advantage of new opportunities.

So, I say sometimes that it's a little bit more of an art than a science when you're an investment manager and you need that experience to understand the difference between a new fad or a new investment strategy that's really just a new name for a product that's been around for 25 years, or a truly unique strategy. So, for example, one of the things that we started in the early 2000s was Portable Alpha. And now that's very common in portfolios, but back then, people didn't understand what Portable Alpha was.

And the way that, I remember the first time that I thought about Portable Alpha, is we were talking to an investment manager who was an expert in small-cap Japanese stocks. And he had the ability to generate alpha consistently in all markets over a decade. But I wasn't interested in getting Japanese beta, and at the time said, I would love to invest in you, and I want this alpha, but I don't want Japanese beta.

So, we developed a strategy that says, how can I hedge out Japanese beta, and then with futures, get exposure to the S&P500 and then get his alpha? And it was the first time we did a portable alpha strategy. And then we had to say, okay, this is great. You know, especially when we were in the US market and there was so much information, and it was really hard to see stable alpha for large-cap equity managers.

And we thought, if we can find this niche alpha other places and hedge it out, then we'll have a portable alpha strategy. A lot of people started to do this, and I remember in the first financial crisis, a lot of portable alpha strategies blew up because really what they were doing is just finding more beta, importing it on top of beta. And when the market crashed, they were down double. But the strategy that has worked for us for the last 20 years is really being consistent in finding absolute return strategies that were market neutral and we've been able to port them over all types of beta successfully. So, it's one of the innovations. So, we started out with equity and then when we started de-risking our portfolio and we needed bond duration, we just started to port it over a different asset class. So that was one type of innovation that started years ago.

And I guess the major one that has been talked about a lot is in our savings plan, and it was the lifetime income strategy. So, in the early 2000s, we saw the writing on the wall. We saw that a lot of corporations were starting to close their pension funds for many reasons, one of them primarily is that people were just living longer.

And when DB plans started, and people would retire when they were 65 and they lived for 10, 15 more years. Now people were retiring earlier, and they were living double that. And that benefit became very expensive. On top of that, we changed accounting rules where, as I mentioned before, the volatility of returns were actually impacting the earnings of a company.

So, DB plans started to shut down, and it made sense for corporations to start to get people involved more in saving for themselves in DC plans. So, 401k plans, which were really invented as a supplemental savings plan and not a retirement plan, really, had to change. And we started to look at that savings plan and said, okay, what can we do to make it DB-like so that we can pull the mortality risk?

And we came up with a strategy, that was really about an implant strategy that was as low cost as we can make it, very much like a target-date fund, but that provided an annuity for our participants. What I found by looking at people who retire, there's usually two types, there's people that retire and, unfortunately, they outlive their money. So, their later part of their life, they're living in poverty. And then there's others who are so afraid to run out of money that they live in the retirement ages sort of under their means.

And we don't want either one of those for our employees, right? So, this was a way or an opportunity to say to participants that were entering in the workforce and ones without a pension plan, to say you can retire with financial security and control and be comfortable that you're not going to outlive your money.

Anu: You know, Robin, I know this focus that you have on secure retirement income is something that you're really passionate about and really focused on. I'm just curious, now, looking forward, what do you envision as the future of this retirement planning of this income stream? Is it the lifetime income strategy that you just described? What are some of the challenges and some of the opportunities, especially in light of evolving, changing demographics, you know, you alluded to some of them, but certainly like an aging population, life expectancy, changes and things like that.

Robin: I'm actually surprised that more corporations have not thought about and put in lifetime income options, I think they will in the future, I think they'll have to. You know, I think America as a society is going to have to do something to help their population save. I mean, we're going to have a retirement crisis in the future. It's not a matter of if, it's going to be when.

And we teach our children about history, and art, and music, but we don't teach them how to balance a checkbook, or, you know, what compound interest is, or how to invest for the future. And so, I think our education system is definitely going to have to change.

And I think corporations are going to have to sort of step up to the plate and say, employees don't want to— managing finances, it just scares them. I remember there was a commercial, I think it was a Prudential commercial, that showed that there was a couple, and they were willing to do anything instead of sit down and talk about their finances. They would do plumbing in their sink, they would, you know, they would rather paint the outside of their house, anything-

Anu: It's time to clean the toilet honey, let's go. [laughs]

Robin: -anything, anything to avoid sitting down and talking about retirement. So, you know, I think as a society, we have to do more to make it not as scary and as simple, and I think corporations have to do that, which is why I think there will be more financial wellness, tools, education, and different ways, methods to really help people understand how do they pay down debt? You know, how do they save for major things that are going to happen in their life? And how do they save for retirement?

Anu: How do you see technology playing a role in all of this?

Robin: Yeah. I think FinTech companies can definitely help. We know that the younger generation is just attached to their phone and some of the older generation too. So, I think there'll be a lot more mobility and, you know, understanding your banking, your budgeting, what you're saving for retirement, we know we're going to go completely cashless in the future. So, I think technology and AI is going to play a significant role in that. And hopefully that will be a way to make investing simpler.

Anu: Absolutely, and hopefully more equitable, which leads me to my next question, which is, you know, your dedication to promoting financial equity, through initiatives like the collaborative for equitable retirement savings is very commendable. Tell us a little bit more about what drives this passion, and what do you hope to achieve through your work in this area?

Robin: So, the collaboration that you were talking about was called CFERS and I originally got involved because I, am on the advisory committee of Aspen, which is looking at retirement security for all Americans. And this was a collaboration with Morningstar, with DCIIA in the Aspen group. And they were starting to look to see if underrepresented groups are saving as well as the other population. And it was very interesting to say, my thought process by looking at the folks in RTX, was that we have state-of-the-art savings plan, I think one of the best in the country.

And we know that, in general, underrepresented folks probably on average, their balance, their average salary is less than, say, a white man's, but their ability, to save is the same. So, the thought process was, when we took our data and we normalized it for salary or for age and for tenure, that the savings rates would be similar. And what I found was they were not, and they were very different, and it was across the board. And I was really surprised by that. So I started to dig into the data and get more involved in this project to really try to understand why these groups were not saving.

And what I realized was, it depended on what group you were talking about, but each one had different circumstances. And by looking at the data, I'll give you [for] example, the black women that work for RTX, are three times more likely to take out a loan or a hardship withdrawal than a white man or a white woman. and if they do take out a hardship withdrawal, that amount is about 33% higher than the average hardship withdrawal.

So what ends up happening, is when you start looking at the retirement balance, when they're getting ready to retire, the leakage that we're seeing is significant. You know, and we see this, sort of, across the board for Hispanic women, Hispanic men. Surprisingly, Asian women and Asian men have a higher savings rate than white men and white women. And then when you dig into it a little bit, a lot of it is culture-oriented.

And what you find is that some underrepresented folks, for the most part, they can be one of their first in their family who have gone to college and have a really high-paying job, and therefore, the support that's needed from the rest of their family is higher. So, what they do is they're taking out loans and hardship withdrawals to help with, family security.

A lot of times, in their culture it's taboo to talk about money. So, they don't talk about money, they're not educated on savings. So, you really have to say, okay, what can we do as a firm to educate folks on how to save? And talk about compound interest and talk about paying down debt.

When you dig in a little bit further, you also find out that some underrepresented folks have trust issues in institutions. And it wasn't until we started to talk to people that they really did not understand that it wasn't the company that was holding their money, that their money was safe in their own separate account that only they could touch, and that there were people that were fiduciaries that were responsible for investing their money. So, there's definitely trust issues. So, people are not investing in institutions. And there's a host of different issues, depending on the culture.

So, what we're trying to do, at least at RTX and then in broader with CFERS, is trying to figure out, what can we do from a design perspective, education and a communication perspective to change that? So, I'll give you a perfect example, one of the things that we're doing at RTX is we're putting in an emergency savings vehicle, so that a person can go into their benefits and automatically, through payroll deduction, invest and-and build up, sort of a little nest egg an emergency savings.

And just by educating them on the fact that emergency savings is good to have, if they have an emergency, then they will not take out a loan on their savings plan or take up a hardship withdrawal. So, it's that type of benefit change that you can create, to just help these people save more.

Anu: Wow. I love that you have that bit, but the access to that rich data set, and then actually be able to implement, real concrete changes or education for RTX, and-

Robin: So-

Anu: -as you said, hopefully, beyond that too.

Robin: -what we're doing is we have employee resource groups, which a lot of companies have, and we're tailoring the message to those individual employee resource groups. So, I'm going, and putting on live, sort of, financial wellness seminars and showing people those different demographics, their own demographics, and talking about the special circumstances and what that actually means for their long-term savings.

Anu: Now, Robin, I know you've had some incredible mentors that have been very impactful in your professional journey. Tell us a bit about what you've learned from them and how it has defined your approach to leadership, especially in terms of nurturing talent and inspiring others to excel.

Robin: Yes. I have had, quite a few mentors from early in my career. As a matter of fact, my very first supervisor, took me aside and he told me that I was a diamond in the rough and he said I was brilliant, but I was never going to get anywhere in my career. And, basically, he said that even though you went to college, and I had my MBA, he said I sounded like I was not educated. And that in his mind I did not speak properly. And I remember being really taken aback by that comment. And I started to take some Dale Carnegie classes. I started to really pay attention to the way that people were speaking and tried to improve on that.

My second mentor, which most people know is Britt Harris. And, you know, he was the CIO of Verizon and then Texas Teachers and went on to do some great things and mentors thousands of folks through his Titans program. He took me on at a very young age when I was still part of the technology organization at Verizon. And he was brutally honest. He was extremely demanding, and he gave praise, when praise was appropriate, but at the same time, he really tried to stretch you and put you in positions that you never thought that you'd be able to succeed in.

So when I was originally in research, he put me in charge of the very first savings plan. It was before they even had target-date funds, and they were called lifestyle strategies. And at Verizon, we were one of the first, corporations that put in lifestyle strategies. And it was how I got introduced to Morningstar originally. So, it was the very first time and it that I had a responsibility for something that was so significant, and I was no way near qualified for that job. So, mentors are extremely important.

Another thing that Britt said to me early on in my career was that I needed to expand my worldview because I would never be a great investor if I didn't understand other perspectives and cultures.

So, I started to travel a lot and traveled everywhere that I could and read books about culture to try to get other perspectives. So, I think a good mentor is somebody who does a little bit of both. Somebody who praises you, gives you opportunities, gives you those stretched jobs, but also can be brutally honest and direct when it comes to opportunities that you have to improve upon yourself.

Anu: And maybe as a follow-up there, speaking about stretch assignments, what have you observed with people when you've put them into those positions or people who may say like, I'm not qualified for that? Like, I don't have all the qualifications met that certainly is often the case where some people say, I don't meet 100% of the qualifications to do that role, so I couldn't possibly put my hand up for it. What do you say to those kind of people?

Robin: Yeah. Try it. You know, we find that a lot. With a lot of our women executives. I mean, we all know the studies that, you know, men raise their hands for jobs that they are not qualified for, and women feel like they need to be able to check every single box and every single qualification before they'll try to apply for a job. So, I tell people all the time, you never know unless you try it. And to be quite frank, most of the time, if you're a good manager and you're asking somebody to take a role, we know that they can do it. Right? We just need to give them the right guidance and sponsorship in order to succeed. So, I tell people, just try it.

Anu: Yeah. I know my-- I like tell myself you should do things that scare you.

Robin: Yeah. Right. Yeah.

Anu: Just say yes.

Robin: You tell your kids that all the time.

Anu: [laughs]

Robin: Right?

Anu: Exactly.

Robin: If you're not out of your comfort zone, you're not learning anything.

Anu: Yeah. Absolutely.

Anu: Robin, as we start to wrap up here and reflect back on your career, what achievements would you say that you are most proud of, and what legacy do you hope to leave behind, in this realm of investment management and retirement planning?

Robin: So I-- legacy. All right. So, you know, I don't-- it's not important for me to be thought of as a great investor because I'm not a great investor but I'm a great fiduciary, and I'm a great employee. So hopefully, my legacy is that, you know, I was a person who really cared about the mission, and cared to make sure that my participants were able to retire with that security. And that's the most important thing to me. Even-- you know, one of the things I'm very proud of is my stint at the PBGC, because when I started on the advisory committee, they had a very significant deficit, and they were not using LDI, and they were not using liability-driven investment. And their board and the staff itself and their supervisors all had different philosophy. And I think we really had to step back and think again about what's the goal, what's the deliverable, what's the mission? And the mission is that you have these workers who have been promised a benefit in the future, and their company went bankrupt, and now they no longer have that benefit unless we're able to fund up the deficit for the PBGC.

And it was really interesting bringing in the investment philosophy that we used in corporations and trying to explain the philosophy and introduce them to the managers that we're working with. And now 15 years later, they have a significant surplus and, you know, they go all over talking about, liability-driven investing. So, I look at that as, you know, one of the great successes in my career.

Anu: Absolutely and I think that's a great place for us to end in on that note but Robin, before I let you go, I do have time for just one quick bonus question, which I ask all of our, audience members, nothing to be worried about you know, we've spoken today about your impressive career focused on helping people retire with dignity. So Robin, my question for you is, what are your hopes and aspirations for one day when you retire?

Robin: Oh, my personal retirement plan?

Anu: Yes. Yeah.

Robin: Oh. I would love to live somewhere very warm-

Anu: [laughs]

Robin: -where the sun is out and I have three or four dogs around me and, on the beach with a pickleball court.

Anu: [laughter] That sounds lovely.

Robin: That's my aspiration.

Anu: You're-you're a big pickleball player, so that sounds, that sounds lovely.

Robin: For fun. For fun.

Anu: [laughs]

Robin: Not competition. I'm not-- I'm not that good.

Anu: Robin, thank you so much for being here today. Your spirit, leadership, dedication to promoting financial equity and dignity in retirement, have really just shone through in this conversation, and some of the insights you had on the future of retirement planning and just that commitment to nurturing, tomorrow's talent really just underscores the profound impact that you've had on our industry. You know, you mentioned you're a great fiduciary, a great employee. I also just want to add, you're a great partner to us at Neuberger Berman, and it's been a pleasure to be able to work with you and your team over the last few years, and we all look forward to seeing what you achieve next. So, thank you again so much for being here.

Robin: Thank you for inviting me. This has been great.

Anu: And to our listeners, if you've enjoyed what you've heard today on *Disruptive Forces*, we encourage you to subscribe to the show or you can visit our website, www.nb.com/disruptiveforces for previous episodes, as well as more information about our firm and offerings.

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