

THE CLOSING BELL
Report of Jim Marketti, Public Employee Committee, AFL-CIO
Representative on the State Investment Council
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Total pension fund assets were down to \$67.3 billion as of 2/28/10 as compared to \$67.4 billion as of 1/31/10 even though the pension fund returned 0.75% on its investments. This is because the fund is paying out more in pension payments than it is taking in (Net benefit payments made in February were \$485.2 million). This is what happens when public employers do not fund their pension obligations and the returns on investment are meager (2.75% annualized return on investments over the past 10 years). Eventually, the pension fund gets eaten up.

Domestic Equity investments (Common Pension Fund A) gained 3.63% for February. Domestic Fixed Income investments (Common Pension Fund B) were up 0.02% for the month. International Equity/Fixed Income investments (Common Pension Fund D) were down -1.15% for the month. As indicated in my last report, I will not report on Alternative Investment returns (Common Pension Fund E – hedge funds, private equity, real estate, commodities, infrastructure) because of the lack of transparency by the Division on returns on these investments.

Before reading further here, you should read the attached letter which I wrote to Investment Council Chair Kramer and Acting Division Director Joseph prior to the March Investment Council meeting. In the letter, I complained about the lack of information on management and partnership expenses paid to external managers of individual Private Equity and Real Estate Funds owned by the Division. This is in addition to the lack of information on the performance of such funds (the returns on such funds are reported quarterly with considerable time lag and then only for all of the funds collectively and not individually).

I raised this issue again at the March Investment Council meeting. I was informed that it was too time consuming to track such information and that the Council Audit Committee (controlled by Kramer) set things up so that this information would not be tracked. I was further informed that the Division did not need this information to do its business. Imagine that. No need to know what individual Funds are returning and what they are charging us for fees. I find that outrageous.

I reported to the Council that I needed that information to do my job as a member of the Council and further reported that with regard to hedge funds which are reported individually, I found five funds which showed negative returns (losses) and still charged the pension fund an average of \$1 million each for management fees in FY2009. Apparently, the price for failure is \$1 million a year. The Acting Director finally agreed that I could come in on my own time and review the raw data on management fees for individual Private Equity and Real Estate funds. I think they will regret the underestimation of a retiree with time on his hands.