

THE CLOSING BELL
Report of Jim Marketti, Public Employee Committee, AFL-CIO
Representative on the State Investment Council
September 22, 2011

The State Investment Council last met on Thursday, July 21, 2011. No Investment Reporting Package was presented to the Council since the Division of Investment was working on the FY 2011 (ending June 30, 2011) annual report. That Report was completed by mid September. A special Council meeting scheduled for September 15, 2011 was canceled. The annual report was sent to Council members in mid-September. An update (through August 31, 2011) was provided just recently. My report covers the results through the end of FY 2011 with some brief comments about the updated version.

For FY 2011, the Pension Fund was up 18.03%. The market value of the Fund as of June 30, 2011 was \$73.7 billion, up \$6.9 billion for the fiscal year. Domestic Equity investments (Common Pension Fund A) increased 32.47% for the fiscal year. Domestic Fixed Income investments (Common Pension Fund B) increased 5.98% for the period. International Equity/Fixed Income investments (Common Pension Fund D) increased 25.58% for the fiscal year. Alternative Asset Class investments (Common Pension Fund E) reported out as follows for the fiscal year: Private Equity, up 21.69%; Real Estate, up 17.55%, Hedge Funds, up 10.69%, and Commodities, up 28.25%. It was a good investment year for the Fund. Since the end of the 2011 fiscal year (and through August 31, 2011), the Pension Fund is down -2.77%.

Before we get all starry eyed over one year of good performance, let us take a longer view of Fund performance. At my insistence, the Division also reports 3 year, 5 year and 10 year results. Over the past five years, the total pension fund is up 5.23% annually and over the past ten years, the fund is up 5.20% annually (so much for the Legislature's assumed annual rate of return of 8.25% which it uses to calculate payments it doesn't make). Annual returns on the various asset classes over the past five and ten years are shown below:

Asset Class	Five Year Returns	Ten Year Returns
Domestic Equity	4.93%	3.67%
Domestic Fixed Income	8.65%	7.04%
International Equity/Fixed Income	3.24%	6.43%
Alternative Investments	2.18%	Not Applicable

In my mind, these results show the power of conservative investing. Domestic Fixed Income investments lead the pack on both a five and ten year basis. They don't gain as much when financial times are good but they don't lose much when times are bad. Everything else is a roller coaster ride on which only the Wall Street professionals and insiders are the winners. Alternative Investments ran dead last.

This will likely be my last report to you. My term expires on September 26, 2011. While it has been a privilege to represent the PEC on the Council, I do not wish to serve a second term. I will remain in holdover status until a successor representative of the PEC is selected and appointed. The next Council meeting is scheduled for October 13, 2011.