

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 asset were up 0.69% for the month of December due to investments. However, total assets were down \$400 million dollars for the month because \$800 million had to be withdrawn from the fund to pay anticipated pension benefits. This occurs because of a lack of funding by public employers. Due to this lack of funding, the state is forced to eat capital assets in the pension funds to pay pensions. (Usually, the investment returns of any one year plus employee contributions and employer contributions are sufficient to cover the pensions paid out). It is not a good sign for long term pension security.

Domestic Equity investments (Common Pension Fund A) were up 3.36% for December. Domestic Fixed Income (Common Pension Fund B) was down -2.13% for the month. International Equity/Fixed Income (Common Pension Fund D) returned 1.30% for the month. Hedge Funds were up 1.74% for December. Since inception (2005/2006), Hedge Funds are up 6.8%, about what the investments could have earned in a money market account with a lot less risk.

In two other major baskets of alternative investments (Private Equity and Real Estate), losses have been substantial but no reports have been updated since June 30, 2009. The State Auditor issued a report in December which reported that the Division of Investments spent \$143 million in Fiscal Year 2008 and \$166 million in Fiscal Year 2009 for brokerage commissions, advisors fees and administration of alternative investments. If you add up all the expenses associated with alternative investments from the beginning, we're probably talking about half a billion dollars out of the pension funds for advice and action in an investment asset class which has produced substantial losses.

I first asked for a listing of expenses associated with alternative investments in December of 2008. Despite repeated promises, no such listing has been provided to me. At the January, 2010, I again requested the listing of expenses since June 30, 2007. I was informed that I could stop in the Division's office to pick it up. I will be there soon.