THE CLOSING BELL
Report of Jim Marketti, Public Employee Committee, AFL-CIO
Representative on the State Investment Council
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The December 18, 2008 State Investment Council meeting continued the drumbeat of bad news regarding investment of public employee pension funds as was reported at the November 21, 2008 meeting. However, there were some glimmers of hope that the Council and Division of Investment have heard and will react to comments by members and critics of the so-called "alternative investment program". First, some facts.

Overall performance for the pension fund was down -2.16% for November, 2008. However, the fund had an estimated portfolio market value of $60.6 billion, up from the $57.8 billion reported as of November 20, 2008. This is because the market rallied in stock equities by more than 19% from November 20 through month-end to finish the month down only -7.2%. Remember that equities are not the only investments held by the fund. Investment grade corporate and government bonds were up +6.02% for November. This is where I believe three-quarters of the pension funds should be invested. Currently, less than a third of the fund is so invested.

The hedge fund portfolio was down -6% in November. These investments, in my eyes, are some of the riskiest investments made by the Council/Division. I calculated and reported to the Council (they won't do this in their formal investment report) that since they started investing in hedge funds (in 2006), the 39 hedge funds in which they have invested $4.1 billion have lost 24% of their value – a loss of $1 billion. Their counter argument is that they would have lost even more if they had invested in domestic stock equities. Hello? They would have done much better if they had invested the funds diverted to hedge funds instead into investment grade corporate and government bonds.

This is the message which members and critics have been delivering to the Council for some time. In an Investment Plan Update, there is evidence that William Clark, Director of the Division of Investments is starting to get it. Included in the Update, he said, "Given the attractiveness of fixed income returns (bonds) relative to historical hedge fund returns, (our target investment range for hedge funds) contemplates no new net investments in hedge funds at this time." He also stated in the Update, "…the plan has a significantly higher allocation to various forms of fixed income investments at the expense of public equities, and significantly reduces the amount of new investment in the alternative space," and, "the planned growth in our fixed income portfolio reduces the need for diversification impact provided by the alternative portfolio," and "we believe that investment grade corporate bonds offer exceptional value at current spread levels."

They could have come up with this change in direction on their own. But I have to believe it is because of pressure exerted by pension plan participants and the legislators who listen to them. Keep up the good work.