

THE CLOSING BELL
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Total pension funds value was down -5.74% for the month of January. Total pension fund assets were \$59.2 billion. All sectors of the investments (domestic equity, domestic fixed income, international equity and fixed income) are down except for hedge funds which were up about +3.4% for the month. I wouldn't get too excited about the up tick in hedge fund investments. This just means that the hedge fund investments are down only -\$888 million since inception rather than the -\$1 billion loss reported last month.

The dismal news for pension fund investments follows the dismal news for the capital markets as a whole in the United States. However, the bad news masks the disaster occurring in the alternative investment funds (hedge funds, private equity and real estate). I have reported extensively on the \$1 billion loss in the hedge funds. Two more shoes are about to drop in March/April, 2009 when the State Investment Council receives updates on a new valuation for private equity and real estate investments.

Currently, we only know the valuations for private equity and real estate through September 30, 2008. A new valuation will be forthcoming through December 31, 2008. Private equity investments were down -8.77% for the quarter ending September 30, 2008. Real Estate investments were down -5.41% for the quarter ending September 30, 2008. It is anticipated that investment returns for those two classes will be down substantially more when the results are known through December 31, 2008.

These three alternative investments in hedge funds, private equity and real estate were supposed to shield the pension funds from larger downturns in equity investments. I will predict that when the valuations are updated, we will find that the alternative investments collectively, will have done worse than the equity investments they were supposed to replace.

Since the beginning of the alternative investment strategies by the State Investment Council in 2005, the unions have urged the SIC to go slow and make small investments in these classes to see whether, in fact, they would add value to the pension funds. Instead, they plunged ahead with full speed. It is small comfort to us, since it is our members' pension funds which are the losers, to be able to say "We told you so". Once these new reports are available, we should seriously consider going to the legislature and demand that they put some limits on the SIC's high roller operation.