



## Recession Update: PERF Performs Better Than Overall Market

Investments at the Public Employees' Retirement Fund performed better than the market during an extremely challenging fiscal year ended June 30, 2009.

In a global recession that saw Standard & Poor's 500 Index drop 26.2% in the fiscal year, PERF's investment loss was 20.6%. However, from January through June of 2009, PERF's growth of 6.1% was nearly twice the broader stock market growth as measured by a 3.2% gain in the S&P 500.

This better-than-market performance provided an \$800 million benefit to the fund in the 2009 fiscal year, and a \$300 million benefit in the 2009 calendar year through June.

"This has clearly been a difficult year for both individual investors and pension funds such as PERF," said PERF Executive Director Terry Magid. "However, our prudent, long-term approach to investing has helped the fund perform better than the overall market."

While economists look for signs of an end to the global recession, the Public Employees'
Retirement Fund (PERF) has found attractive opportunities despite difficult market conditions, as noted recently by *The Wall Street Journal*.\*

A case in point is a well-timed trip to Hong Kong in September that resulted in a new private equity secondary investment already valued at \$7 million more than when purchased. The trip not only illustrates the opportunities available in today's market, but underscores the power of face-to-face contact in finding and evaluating investment opportunities that directly benefit the PERF investment portfolio.

"We have a cautious approach to investing that includes meeting fund managers face-to-face to gather detailed information regarding how they do business," Magid said. "Based on this single trip, we were able to identify an attractive and prudent private equity opportunity available at a significant discount. The result is an \$8.8 million investment made in February that is now valued at approximately \$16 million."

This investment is part of an ongoing effort by PERF to implement an asset allocation designed to protect the portfolio from market downturns. The idea is that when one type of investment, such as public equity, is down, other types of investments may be flat or even up. While PERF

cannot avoid the short term pain of today's markets, this approach to investing helps mitigate the long term impact to PERF of major swings in the market.

## **Aggressive Cost Cutting**

Clearly PERF is not immune from the dramatic market drops of the past months and has certainly felt the pain of deflating investment values. So, while PERF's investment team continues to look for opportunities to prudently diversify the PERF investment portfolio, the fund has been aggressively cutting costs.

Like public employees throughout Indiana, the PERF staff has gone without pay increases. In addition, many open positions have not been filled, and expenditures for everything from travel to pens and paper have been reduced. Overall, PERF finished fiscal year 2009 approximately 25 percent under budget, including a 50 percent reduction in travel expenses.

"While we have reduced expenses, we have not compromised on those things that are most important to the long term security of the fund, including closely monitoring our investment managers and looking for top-tier investment opportunities," Magid said. "We believe this level of due diligence continues to protect us from unscrupulous investment managers such as Bernie Madoff."

## An Eye to the Future

PERF's asset allocation was intentionally designed to weather market challenges and economic recessions. A strong asset allocation focused on diversification, combined with a prudent 30-plus-year investment horizon, means the fund is being managed to ensure members' future benefits are not at risk now or in the future.

In addition to the recessionary opportunities such as the recent Asian private equity investment, PERF has an eye toward a post-recession future. When market stability and growth return, PERF is well positioned to take prudent advantage of improved conditions for the benefit of our members and employers.

In the meantime, the fund will continue aggressive cost cutting and close scrutiny of current investment managers while prudently identifying investment opportunities in the U.S. and around the globe.

<sup>\*</sup> See: http://blogs.wsj.com/privateequity/2009/06/30/another-public-pension-fund-makes-secondary-market-move/