PAPERS

Pennsylvania Association of Public Employee Retirement Systems

PO Box 61543, Harrisburg, PA 17106-1543

Website: *www.pa-pers.org*

Fall 2013 (Vol. 8, No. 3)

In This Issue

Looking Ahead at More PAPERS Opportunities

10th Annual PAPERS Forum

May 28-29, 2014
(Wednesday-Thursday)
Harrisburg Hilton Hotel

Registration for the Spring Forum will begin in March, 2014.

Corporate sponsorships for the 2014 PAPERS Forum are now being accepted. Contact PAPERS Executive Director Jim Perry *(717-651-0792 or perryja1@comcast.net)* today for more details. Sponsors receive priority consideration for speaker opportunities at the Forum in recognition of their financial support beyond regular conference registration fees and annual membership dues.

What's This Thing Called PPCP?

By: Krista Rogers, PAPERS Board Member & Director of Education

Education is one of the keystones of PAPERS' mission, so several years ago a formal certification program was begun to encourage pension plan trustees, staff and service providers to continue their learning. Until the 2013 Fall Workshop, you knew PAPERS' certification program as the *Certified Public Pension Trustee* (CPPT) program. This program was part of an agreement with the Florida Public Pension Trustees Association (FPPTA) to provide testing, webinars, and certifications under FPPTA's already established and copyrighted certification program.

This spring the PAPERS Board decided to bring this program in-house and I have been selected to manage the program. In an effort to clarify who is eligible to participate the name was changed to the *Public Pension Certified Professional* (PPCP) program. The PPCP Program is open to all trustees, mangers and administrative staff as well as service providers who offer services to public pension plans in Pennsylvania. The Fall Workshop was my first event as coordinator for PPCP. I struggled a bit with the process of gathering information and questions for the certification test, but thankfully all of the presenters and participants were patient and cooperative and the participants have all passed the exam. After having successfully completing this portion of the program and passing their exams, we have three new recipients of the PPCP Certificate. Be sure to congratulate PPCP's newest graduates: Dana Descavich (Cambria County) and James Eckstein (Butler County), and Melva Vogler (PSERS)!

Previously, three recipients have received certification: Jonathan Davidson of Kessler, Topaz, Meltzer & Check LLP in Radnor, PA; Terrill Sanchez of the Public School Employees Retirement System in Harrisburg, PA and me (Controller of Lycoming County).

The Board's goal is to grow and improve this program and communicate the importance of education in the realm of public pensions. To that end we are adding more on-line webinars for continued education. The schedule at this time is as follows: October 23rd and November 13th, 2013 and January 15th, February 19th, March 19th, April 16th, August 20th, October 15th, and November 12th , 2014. We have scheduled presenters for October and November 2013, as well as January 2014. There may be slight changes to the dates depending on the availability of presenters each month but the goal is to stick with Wednesday mornings.

Please contact me with any questions on the program or if you have an interest in being a webinar presenter.

Krista B. Rogers, PAPERS Certification Program/Director of Education
234 Gordon Street, Duboistown, PA 17702
Phone: 570-971-2528; E-mail: krista-rogers@comcast.net

From the PAPERS Executive Director

PAPERS produced its 7th Annual Fall Workshop at the Sheraton Station Square in Pittsburgh, Sept. 12-13, 2013. The attendance was outstanding. The location was excellent as it provided great conference facilities and convenient access to PNC Park where we enjoyed a night with the Pittsburgh Pirates. We were able to work in a very nice reception, compliments of our many sponsors.

Attendees Gathered in Pittsburgh for Fall Workshop

The speakers all did an excellent job of preparing and presenting their material. The presentations were lively, informative and interesting. After lunch we had a short presentation on the new Public Pension Certified Professional certification program by coordinator Krista Rogers.

The ***Keynote Address*** *was* presented by **Commonwealth of PA Treasurer Rob McCord**. Rob talked about his role as Treasurer and his involvement with the many pension boards on which he serves. He discussed the importance of maintaining defined benefit pensions for public employees. He indicated those pension benefits play an important role in recruiting and retaining qualified employees. He also discussed the cost benefits that defined benefit plans have over defined contribution plans when it comes to providing fair affordable benefits.

Following Treasurer McCord we had a presentation entitled ***The Great (Re)Balancing Act*** presented by Rick Harrell from Loomis Sayles & Company. Rick talked about growth, trade and portfolio rebalancing. Next Tom Marthaler of Neuberger Berman talked about ***The Changing Landscape of Fixed Income*****,** indicating that declining interest rates and spread compression have left global fixed income investors with fewer options and more risks to navigate. He also discussed the implication for the future.

Next Sean McShea from Ryan Labs discussed ***Pension Obligation Bonds: Friend or Foe*****.** Sean provided a lively discussion on the pros and cons of these financial solutions. The cons seemed to outweigh the pros. We finished up the educational portion of the day with Stephen Kwa from Schoders who spoke about ***Challenging Conventional Wisdom and a Fresh Perspective on the Global Equity Landscape*****.** He discussed a wide range of issues around 'smart beta', alternatives to cap weighting, key drivers of global equity returns, concentrated vs. diversified portfolios and some key global equity themes. We finished the day with a networking opportunity at PNC Park.

Andrew Wozniak Makes a Point About GASB

On day two we started with a very interesting discussion of ***GASB from a Portfolio Manager's Perspective*** presented by Andrew Wozniak from BNY Mellon. Andrew's presentation had three major themes: Expect change in accounting, funding and governance; Get in front of the 2014 changes, potential implications and sponsor considerations; and Anticipate a challenging return environment over the next five years.

Executive Director's Column *(continued)*

Next, Geoffrey Gerber (above), founder and CIO of Twin Capital Management, presented a session entitled ***You Should Be Concerned about Risk*.** Geoffrey discussed a range of risk related topics including: understanding risk and market variability, risk matters, and reducing risk. He demonstrated the impact of volatility on long term investment results. Next was a presentation entitled ***Fiduciary Duty 201***. Speaker Jeanna Cullins, a consultant with HewettEnnisKnupp, discussed taking the next step in understanding your fiduciary duty. We wrapped up the morning with a lively Trustee Panel ***Just the Facts Ma'am*.** The panel was moderated by Sean McShea and included Tim Johnson, Executive Director of the Allegheny County Employees Retirement System and Scott Kunka, Director of Finance for the City of Pittsburgh. They took a fact based look at the state of pensions in PA.

Our newest offering - *the PAPERS Public Pension Professional Certification program* – is growing and has now awarded its 5th "graduate diploma". We are very pleased to provide this opportunity for trustees and staff from local pension funds and other pension professionals to become better trained to perform their fiduciary duties.

PAPERS is able to function thanks to the continued support of the corporate community through Associate and Affiliate Memberships. Membership renewal time is coming up shortly and I urge all firms providing services for public pension plans to sign up early. We extend a special thank you to all the generous corporate sponsors who have helped PAPERS to produce our Spring Forums and Fall Workshops. Without this extra support beyond annual memberships, PAPERS could not provide these comprehensive training opportunities for the staff and trustees of our public pension plans.

The ultimate success of PAPERS is dependent on the continued and increased participation of the state's public pension plans and their trustees and staff. If you are reading this newsletter and serve as a trustee, administrator or staff member of a public pension plan in Pennsylvania, please make sure that your plan becomes a PAPERS Participating Member for 2014. Our organization's goal is to have the best trained and educated pension officials in the country please join us in this effort and become an active participant in PAPERS. PAPERS is <u>your</u> organization, so please help to make it the best it can be.

Jim Perry

James A. Perry, PAPERS Executive Director

If not already affiliated with PAPERS, becoming a member is easy.

A current year PAPERS membership is required for attendance at the Spring Forum and/or Fall Workshop and to receive credits in the CPE and/or CPPT programs.

Public employee retirement systems (pension funds) can apply to become Participating Members; each Participating Membership includes one complimentary admission to both the Spring Forum and the Fall Workshop. Corporate providers of service to pension plans can apply to become Associate or Affiliate Members online at **www.pa-pers.org** or by contacting:

PAPERS
PO Box 61543
Harrisburg, PA 17106-1543

James A. Perry, *Executive Director*
Phone: 717-545-3901
E-mail: perryja1@comcast.net

Douglas A. Bonsall, *Office Manager*
Phone: 717-921-1957
E-mail: douglas.b@verizon.net

PAPERS Board of Directors

Brian Beader
County Commissioner, Mercer County

Edward Cernic, Jr.
County Controller, Cambria County

Jeffrey Clay
Executive Director, PA Public School Employees' Retirement System

Craig Ebersole
County Treasurer, Lancaster County

Richard Fornicola
County Treasurer, Centre County

Cleveland Forrester
(Retired) Chambersburg Finance Director

Timothy Johnson
Executive Director, Allegheny Co. Retirement Office

Bernard Mengeringhausen
(Retired) Controller, City of Wilkes-Barre

Joauna Riley
Senior Legal Advisor, City of Philadelphia Board of Pensions & Retirement

Krista Rogers
Controller, Lycoming County

Corporate Advisory Committee

Andy Abramowitz
Spector Roseman Kodroff & Willis, P.C.

Kevin Cauley
Chimicles & Tikellis, LLP

Darren Check
Kessler Topaz Meltzer Check, LLP

Timothy Haluszczak
SteelBridge Ventures Consulting

Rosemary Kelly
Broadridge Investor Services

(Ms.) Carter Reynolds
Neuberger Berman

Gordon Sapko
BNY Mellon

PAPERS Staff

James A. Perry
Executive Director

Douglas A. Bonsall
Office Manager/Newsletter Editor

Krista Rogers
Certification Program Coordinator

IT'S PAPERS MEMBERSHIP RENEWAL TIME

Invoices to current PAPERS members will be issued on or about 12/01/2013. Your 2014 membership entitles representatives of your company or pension plan to participate in PAPERS conferences and the PPCP certification program.

There are three categories of PAPERS membership:

- **Participating** ($95) - Public employee retirement systems (pension funds)
- **Associate** ($1,000) - Corporate providers of legal and investment services to pension plans
- **Affiliate** ($500) - Corporate providers of other services, exclusive of legal and investment services, to pension funds.

Corporate (Associate & Affiliate) Members also have the additional opportunity to become sponsors for PAPERS' two annual conferences – the Spring Forum and the Fall Workshop. Page 13 of this newsletter gives complete details about the various levels of sponsorship.

Sponsors receive recognition in the printed and on-line materials produced for the conferences and also receive priority consideration to provide speakers and/or make presentations.

The 8th annual PAPERS Fall Workshop will be held in downtown Philadelphia in September, 2014. The exact dates and location will be announced as soon as they are confirmed.

How to Invest in Emerging Markets 3.0

By: Sammy Suzuki, Portfolio Manager—Emerging Markets Core Equities and Director of Research—Emerging Markets Value Equities at AllianceBernstein

The views expressed herein do not constitute research, investment advice or trade recommendations and do not necessarily represent the views of all AllianceBernstein portfolio-management teams.

It's been 25 years since the emerging-market equities index was created, and much has changed. Today, we believe that emerging markets are on the cusp of a third phase that might compel investors to shift away from benchmarks and focus on absolute risk.

Emerging markets haven't been kind to investors this year, with the MSCI EM Index falling by 8.6% through the end of July amid growing concern about political risk and economic growth. Many investors are asking whether the party is over after a quarter century of outsized returns. Indeed, US$100 invested in emerging-market equities 25 years ago would have grown to more than US$1,700 today—over three times better than developed-market returns (Display). In our view, emerging markets still offer plenty of opportunity, but times have changed and investors must adapt.

New Era for Emerging Markets After Years of Explosive Growth

Through July 31, 2013
**Compound annual growth rate*
Developed Market returns are based on MSCI World Total Return Net USD index; Emerging Market returns are based on MSCI EM Total Return Gross USD Index until December 31, 2000 and then MSCI EM Total Return Net USD Index thereafter.
Source: MSCI and AllianceBernstein

(Continued on Page 6)

How to Invest in Emerging Markets

(Continued from Page 5)

Discovery Period Required Skill

There have been three distinct periods for emerging market investors. The discovery period began in 1988, when emerging markets represented less than 1% of global stocks and there were only 10 countries in the MSCI EM benchmark. Malaysia and Brazil accounted for more than half of the index. Russia, India and China weren't even included.

Early investors were rewarded handsomely. Yet their resolve was tested by a series of crises from the late 1990s, which often sent regional stock markets into a tailspin. So for emerging market pioneers, success depended on skillful avoidance of major macroeconomic risks.

Beta Won in BRICs Era

The second phase was the BRICs era, beginning in 2001 when China joined the World Trade Organization. Soaring commodity prices benefited commodity-exporting countries, while inflation dropped, credit became readily available and a middle class emerged. The MSCI EM index quintupled between 2003 and 2007.

Exposure to beta was a winning formula. No wonder exchange-traded funds (ETFs) and passive strategies became very popular—after the big run-up in the index.

Leaving the Benchmark Behind

But rearview mirror investing is never a great idea. In our view, beta won't do the trick in the next stage, which we call Emerging Markets 3.0.

Why won't beta be effective? First, returns are likely to be more measured after years of explosive growth. Second, hidden vulnerabilities of companies are likely to become much more visible. And third, dramatic changes are sweeping emerging markets as China's economy develops while new manufacturing countries emerge such as Vietnam and Bangladesh and broad reforms promise major change in places like Mexico.

Seek Alpha to Exploit Inefficiencies

What hasn't changed is that emerging-market equity markets are still inefficient. In the past, these inefficiencies meant investors could do well in emerging-market returns even by following simple quantitative metrics. For example, between 1994 and 2012, the most attractive quintile of stocks based on price/earnings or earnings revisions outperformed the market by 8%. We believe these trends will continue because the inefficiencies that drive them persist, such as slower dissemination of information, less transparency, higher transaction costs and limited liquidity.

To tap these inefficiencies, we think investors should adopt strategies that seek alpha. However, most emerging funds have a tracking error of less than 5%, according to eVestment. Hugging a relatively volatile benchmark isn't a great way to control risk.

Instead, we believe that investors should consider abandoning emerging-market benchmarks in favor of strategies oriented toward absolute return. This will be especially important because in Emerging Markets 3.0, markets will be much less forgiving of company weaknesses, and managements will be forced to prove their governance and capital stewardship like never before. To be successful in this environment, portfolio managers must recognize shifts in the macro landscape early, identify companies that can navigate through profound changes and effectively manage absolute downside risk.

Finding Relative Value in Today's Equity Markets

By: Craig Morton

Craig Morton is a Consulting Analyst with Gallagher Fiduciary Advisors, LLC. He is responsible for conducting investment manager research, implementing investment manager search procedures and supporting the firm's preparation of quarterly client performance reports.

Public pension plans across the nation face the daunting task of achieving their actuarial rate of return in the coming years. Low interest rates and slow economic growth are a drag on portfolio performance. How can a plan be expected to hit the average assumed rate of 7.75%[1] when fixed income is yielding 2.0% and facing potential losses if/when rates start to rise?

As long as fixed income is public (plan) enemy number one, equity will need to be the solution. However, its success in recent years has caused fears of a pullback to rise above the level of mere whispers by fringe contrarians. According to the Investment Company Institute, over $44.6 billion has flown out of domestic equity funds in the past year (ended 8/31/13). With repeated flare ups of geopolitical instability and policy uncertainty, equities may seem as unappealing as bonds. But past performance and political tension are not what drives equity performance: valuations are.

Valuation ratios tend to ebb and flow within normal ranges, making measures such as the price to earnings ratio (PE) a useful predictor. At first glance stocks may seem expensive because the market has been on a roll and making new highs, but stocks look fairly valued on a relative basis: compared to bonds with low yields and threat of rising rates, and relative to earnings thanks to companies becoming more efficient. Within the equity universe, some segments look more attractive relative to others.

While equities as a whole seem fairly valued based on long-term PE trends and ranges, small-cap stocks are a segment that seems to be overvalued. Small companies, as measured by the Russell 2000 Index, are trading well above normal levels, with a PE over 30 compared to a long-term average of around 18. This lowers the expected return of small-cap stocks, because PE valuations would be expected to contract to more normal levels. Alternatively, it is possible that the current PE levels will be justified by small companies finding ways to grow their business rapidly, but given the economic landscape it seems unlikely many companies (let alone an entire asset class) will be able to do so.

Opportunities to buy at average valuations persist in large-cap stocks, domestic and international, despite solid performance in recent years. Emerging markets equities are actually slightly below long-term average PE levels, making them comparatively attractive. Developed markets have historically enjoyed a slight premium to emerging on a PE basis, but are currently around 1.4 times as rich compared to a thirty-year average of 1.2 times. These segments have more potential to help plans reach their return expectations in the coming years because of the relative value they represent.

[1] Public Fund Survey, October 2013

[2] Investment Company Institute, October 2013

Most Industry Sectors Provide Little Long-Term Diversification

Portfolio diversification is what matters most for long-term risk-adjusted returns. Knowledge about how different stock market sectors move in relation to the broader market over a multi-year time horizon can provide a roadmap to better diversification.

An analysis of industry correlations by the National Association of Real Estate Investment Trusts (NAREIT) yields some surprising insights for pension funds. In day-to-day trading, most industry sectors are only moderately correlated with the broader market, and thus would appear to provide good diversification. However, when looked at on a 60-month (five-year) basis, most sectors are approximately 90 percent correlated with the S&P 500 Index. Spreading equity investments across many sectors provides little meaningful diversification over longer horizons.

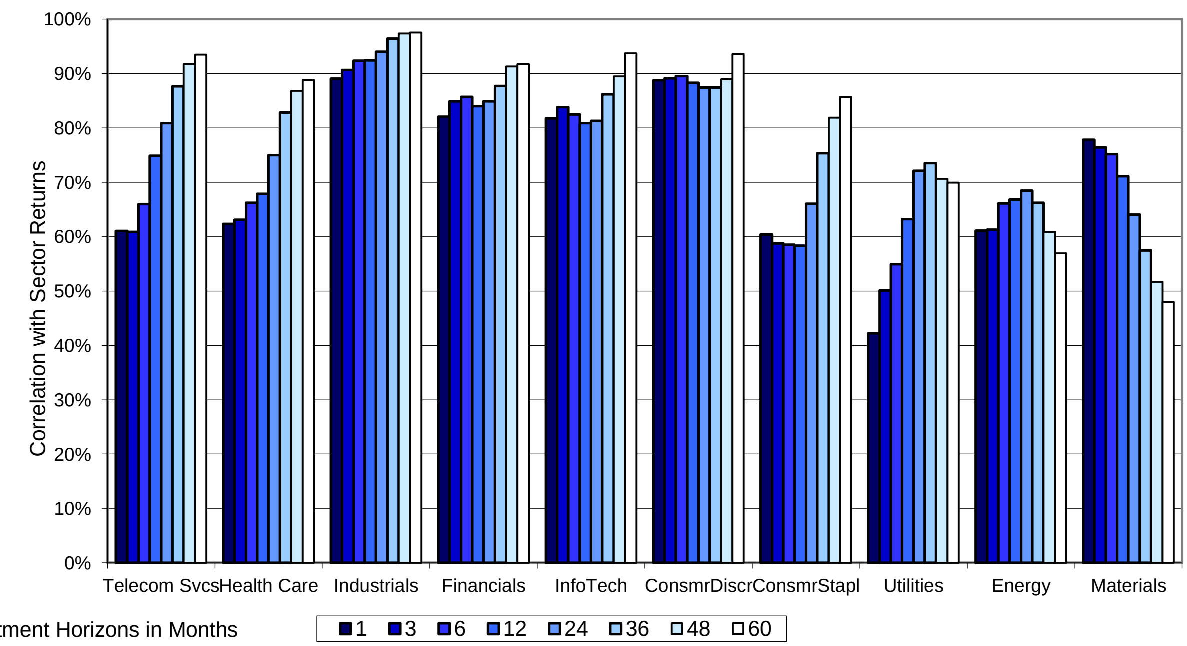
REITs are the one segment of the stock market that provides dramatically lower – and steadily declining – correlations to the broader market over holding periods ranging from six months to five years. A meaningful allocation to publicly traded equity REITs could make a difference for pension funds seeking to achieve better diversification.

Over time, most sector movements match the stock market

NAREIT's analysis used public market data to compute correlations for various industry sectors versus broad market benchmarks such as the Dow Jones Total Market Index and the S&P 500 Index from January 1990 through March 2012— looking at investment horizons ranging from one-month returns to 60-month returns.

The charts below show how return correlations between several industry sectors and the Dow Jones Total Market Index increase as the investment horizon lengthens. Over a 60-month time horizon, many sectors – including industrials, financials, technology, healthcare, consumer discretionary, and telecom –are correlated with the stock market as a whole by 89 percent or more, suggesting they provide little diversification benefit relative to the broad market. Energy and materials industry stocks are less correlated as they are linked more than other industry sectors to commodities cycles.

Correlations Between Sector and Broad Market Returns Increase with the Investment Horizon



(continued on Page 9)

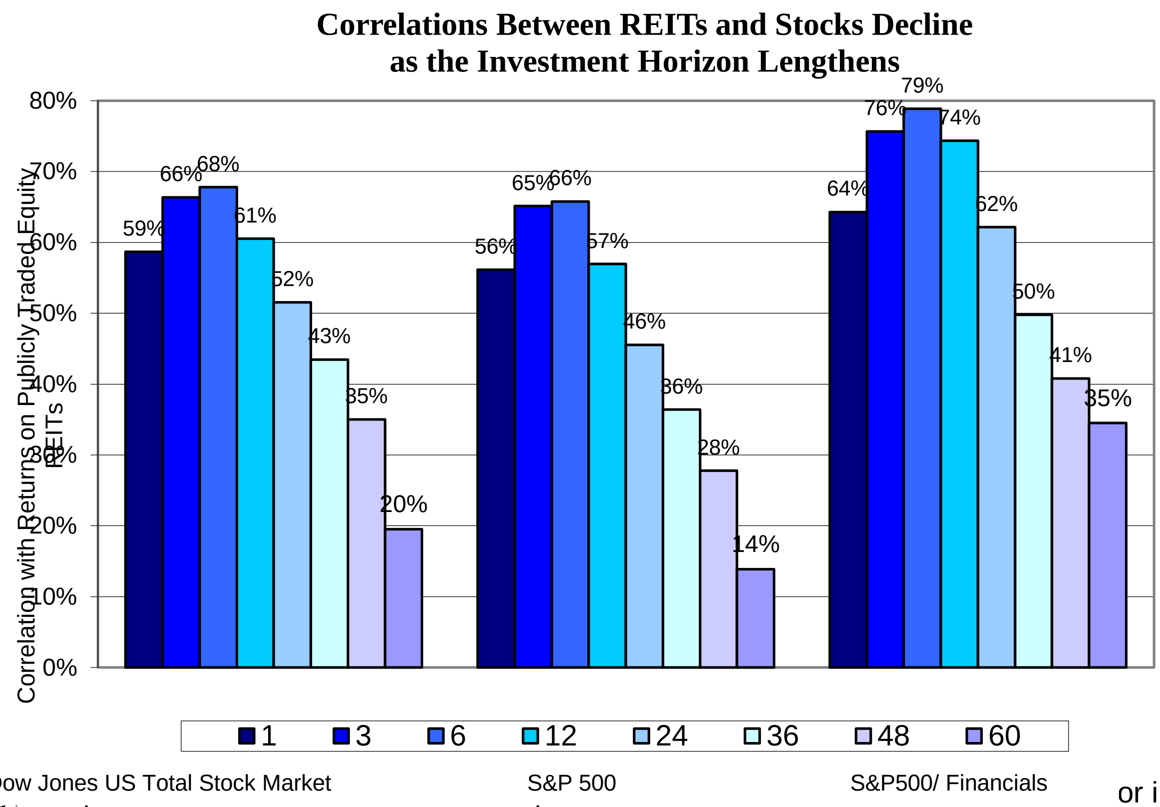
There's No Place Like REITs

(continued from Page 8)

REITs offer the most long-term diversification

With publicly traded equity REITs, however, the pattern is reversed. This makes REITs a potentially beneficial asset for portfolio diversification for investors with longer-term horizons.

As the chart below shows, correlation with the broader market is moderately high over short investment periods – but it declines dramatically when investment horizons lengthen. For example, the correlation of listed equity REIT returns (as measured by the FTSE NAREIT All Equity REITs Total Return Index) and the Dow Jones Total Stock Market Index is 68 percent over six-month horizons, but only 20 percent over 60-month horizons. And for the S&P 500 Index, correlation with REITs is only 14 percent over 60-month horizons.



Surprisi… or in which equity REITs are classified. For example, the correlation is 79 percent over six-month investment horizons, but only 35 percent over 60-month investment horizons.

Conclusion

Market data demonstrate that a diversified portfolio that includes listed REITs can reduce the volatility and risk of loss and enhance long-term returns. U.S. REIT total return performance over the past twenty years has outstripped the performance of the S&P 500 Index, the Barclays U.S. Aggregate Bond Index and other major equity and fixed income indices. This, coupled with the diversification power of REITs, underscores the benefits over longer-term horizons.

This article by: Brad Case, Ph.D., CFA, CAIA,
Senior Vice President, Research & Industry Information at the
National Association of Real Estate Investment Trusts

Small-Cap Distortions:
Is There Hope for Active Managers?

By: Small Cap Value Equity Team, Neuberger Berman
Team Members: *Judith M. Vale, Robert W. D'Alelio, Michael L. Bowyer, Brett Reiner, Lawrence E. Berman, Alexandra H. Utterman, Solin Cho, Gregory G. Spiegel and Lee Arden Arcamone*

The article below is summarized from a longer research paper that may be accessed on the PAPERS website http://www.pa-pers.org/newweb/documents/Fall2013-NeubergerBerman-FullArticle.pdf. The biographies and photographs of the authors are also posted there.

The small-cap segment of the U.S. equity market has long been viewed as a sweet spot for active portfolio management. A large, diverse pool of stocks, a lack of research coverage and relatively illiquid securities have contributed to inefficiencies ripe for exploitation by skilled stock pickers. Still, in recent years, it has become increasingly difficult for active managers to outperform in the small-cap space. In part, this seems to reflect a market-wide shift in focus to macro issues since the 2008 crisis. However, it appears to us that something more is at play—the distorting influence of Federal Reserve policy and the growth of passive small-cap exchange-traded funds (ETFs).

Fed Favors Low Quality

In our opinion, the Fed's loose monetary policy has had a profound impact on the market performance of low-quality companies relative to high-quality companies in the small-cap universe. Historically, low-quality names (with low returns on invested capital, or ROIC, and—typically—high debt levels) have generally led high-quality issues (high ROIC, low debt) during rapid economic recoveries, but underperformed at other times, particularly during periods of economic stress.

This cycle, however, has been quite different. Low-quality small-cap stocks have generally outperformed since 2011 despite a slow to decelerating economic environment. Over this period, the Fed's near-zero interest rates and quantitative easing measures have favored borrowers over savers. As such, low-quality/highly levered companies have enjoyed the benefit of earnings growth driven by falling interest expense; high-quality/more conservatively financed companies have not enjoyed this earnings boost. In fact, many have been penalized for their cash holdings, which are currently a "non-earning" asset. For many active equity managers, who allocate capital based on the most deserving business models adjusted for valuation and risk, this has been a major headwind.

ETFs Obscure Differences

Another key issue is the increased popularity of ETFs, which we believe have a far more telling influence in the small-cap universe than among large caps. The S&P 500 Index is fairly homogeneous on quality—most of its companies are well established and well capitalized—but is heterogeneous in terms of size, with a wide market-cap range. In contrast, companies in the Russell 2000 Index vary widely in terms of quality but, in addition, are closely sized.

(Continued on Page 11)

Small Cap Distortions

(Continued from Page 10)

Given this tight market-cap band, increased money flows into small-cap ETFs have a much greater impact on individual stock performance. And because ETFs do not distinguish among companies, the flows have moved to low- and high-quality names alike—without regard to fundamentals. This has tended to increase correlations, particularly in times of market stress.

While ETFs have attracted new assets, small-cap active managers have experienced steady outflows. To the extent managers "high grade" their portfolios (buying quality, avoiding riskier stocks), these outflows have tended to pressure higher-quality stocks. This, in turn, seems likely to have contributed to active-manager underperformance—further contributing to outflows, quality share weakness, and so on.

Fundamentals Matter

Despite these trends, we believe there are reasons for optimism. For one, the performance impact of the Fed's loose monetary policy has probably run its course. As interest rates approach zero, the earnings gains from falling interest expense are reaching an end, while cash-laden balance sheets are no longer experiencing falling interest income. And although small-cap ETFs seem "here to stay," we think their failure to distinguish among companies is creating substantial valuation distortions—which are likely to be recognized over time. Badly run, overly leveraged companies are more likely to fail. Fast-growing, differentiated, well-run businesses are more likely to succeed. The failure of ETFs to make this distinction creates opportunities for active managers. The key is to have the patience to avoid short-term speculative choices in favor of a long-term time horizon tied to underlying fundamentals.

Admitting Liability: The SEC Gets Tough

By: Andrew D. Abramowitz
Spector Roseman Kodroff & Willis, P.C.

The Securities and Exchange Commission raised many an eyebrow this past summer when it announced a new policy of forcing wrongdoers to admit to wrongdoing. According to the policy, in certain instances, the SEC will not allow corporate defendants to settle cases with the tried-and-true "we neither admit nor deny" language. Instead, it will, in some cases, force settling parties to cop to their misconduct with affirmative admissions of culpability.

The move is not all that surprising given the recent political pressure to have accountable parties accept responsibility for their misdeeds, particularly in the wake of the financial crisis. The policy adjustment may even have its roots in a ruling by a federal judge in a Citigroup mortgage-backed securities case in 2011. There, United States District Judge Jed Rakoff of the Southern District of New York rejected a $285 million settlement between the SEC and Citigroup partially because the court was troubled by the fact that Citigroup had not admitted to any wrongdoing.

This does not mean that all settlements will involve admissions of liability from here on out. Rather, the SEC appears to be focused on imposing this requirement in limited circumstances, such as where the misconduct has harmed large numbers of investors, where the misconduct is particularly egregious or intentional, or where the defendant has done something to obstruct the SEC's investigation.

It seems, however, that the policy is already being given teeth. In September, the SEC compelled JPMorgan Chase & Co. to admit that it violated securities laws as part of a $920 million settlement with regulators in both the U.S. and U.K. The failure of controls and governance within JPMorgan was obviously deemed to be sufficiently egregious to warrant an admission of guilt. The SEC insisted upon it and JPMorgan complied.

The new policy is polarizing. Corporations and their lawyers obviously do not like it because an admission of liability can be used against the wrongdoer, such as by plaintiffs in other cases. Under the "neither admit nor deny" framework, a defendant can settle with the SEC without necessarily making life easier for investors seeking to recover for the same harm that gave rise to the SEC action. Other critics suggest that the new approach will make the work of an already taxed SEC even more challenging, as it will make defendants less inclined to settle and thus force more trials.

But if the SEC takes this policy seriously, shareholders could benefit substantially. An admission by a corporate defendant can be enormously helpful to an investor seeking redress for corporate fraud. For instance, a public pension fund that is contemplating a securities fraud lawsuit or a shareholder derivative action would vastly prefer to be able to allege in its complaint that the defendant has already acknowledged culpability in other proceedings. Such an admission can help establish that a company or its insiders deliberately misled the public or that a breach of fiduciary duty has occurred. Whereas defendants are often able to settle with the SEC for considerable amounts of money and then hide behind the fact that the settlement did not include any admission of wrongdoing, the new policy will – in egregious cases – limit a defendant's ability to do so.

SRKW
SPECTOR ROSEMAN
KODROFF & WILLIS PC

PAPERS

Pennsylvania Association of Public Employee Retirement Systems

2014 PAPERS MEMBERSHIP and SPONSOR FEES

Organizations may become members of PAPERS according to the various categories listed below. A current PAPERS membership for an organization entitles any number of representatives, trustees and staff from that organization to attend the annual Forum and Fall Workshop, subject to the registration fee of each event. The following categories of organizational membership are available:

Participating Member annual dues for Public Pension Plans are $95

- All member pension systems receive one complimentary registration each to the spring Forum and the Fall Workshop.
- The registration fee for each additional pension plan representative attending PAPERS' conferences is: $75/person for the 2-day Forum and $50/person for the Fall Workshop.

Associate Member annual dues are $1,000

Asset Managers and firm providing legal services to public pension funds

- Forum registration fee for Associate Member representatives is $750/person.
- Fall Workshop registration fee for Associate Member representatives is $400/person.

Affiliate Member annual dues are $500

Non-profit organizations, union pension plans and consultants not directly managing pension assets

- Forum registration fee for Affiliate Member representatives is $375/person.
- Fall Workshop registration fee for Affiliate Member representatives is $200/person.

Forum <u>GOLD SPONSOR</u> - $5,000

- Priority for speaking slots and four complimentary registrations to the Forum
- A two page ad in the Forum notebook plus recognition on the Forum posters and agenda
- Complimentary Exhibit Space

Forum <u>SILVER SPONSOR</u> - $2,500

- Two complimentary registrations for the Forum
- A one page ad in the Forum notebook plus recognition on the Forum posters and agenda

Forum <u>SILVER EXHIBITOR</u> - $3,000

- Same as Silver plus exhibit space

Fall Workshop <u>SPONSOR</u> - $2,500

- Priority for speaking slots and two complimentary registrations to the Forum
- A one page ad in the Fall Workshop notebook plus recognition on posters and agenda

Fall Workshop <u>SPONSOR EXHIBITOR</u> - $3,000

- Same as Sponsor plus exhibit space

PAPERS offers CPE (continuing professional education) credits for attendance at the annual Forum and Fall Workshop. Persons enrolled in the PPCP (*Public Pension Certified Professional*) certification program also earn credits for conference attendance upon successful completion of post-conference testing.

11/23/2013