Pennsylvania Association of Public Employee Retirement Systems
PO Box 61543, Harrisburg, PA 17106-1543
Website: *www.pa-pers.org*

Spring 2011 (Vol. 6, No. 1)

In This Issue

PAPERS Forum 1
Director's Column; Directory 2
Forum Sponsors 3
Forum Registration 4
Directions/Hotel Details 5
I've Got the Power 6
Corporate Governance 7
Risk Based Allocation 8-9
The IPO Market in 2011 9-10
Blowing the Whistle 11
Non-Agency RMBS 12
Going Global 12-13
Int'l. Equity Performance 13-14
Filing Proofs of Claim 15-16
Asset Allocation After 16-17

Looking Ahead at More PAPERS Opportunities

5th Annual Fall Workshop

Wed., September 21, 2011

Four Points Sheraton Pittsburgh North
910 Sheraton Drive
Mars, PA 16046

8th Annual PAPERS Forum

May 23-24, 2012
(Wednesday-Thursday)

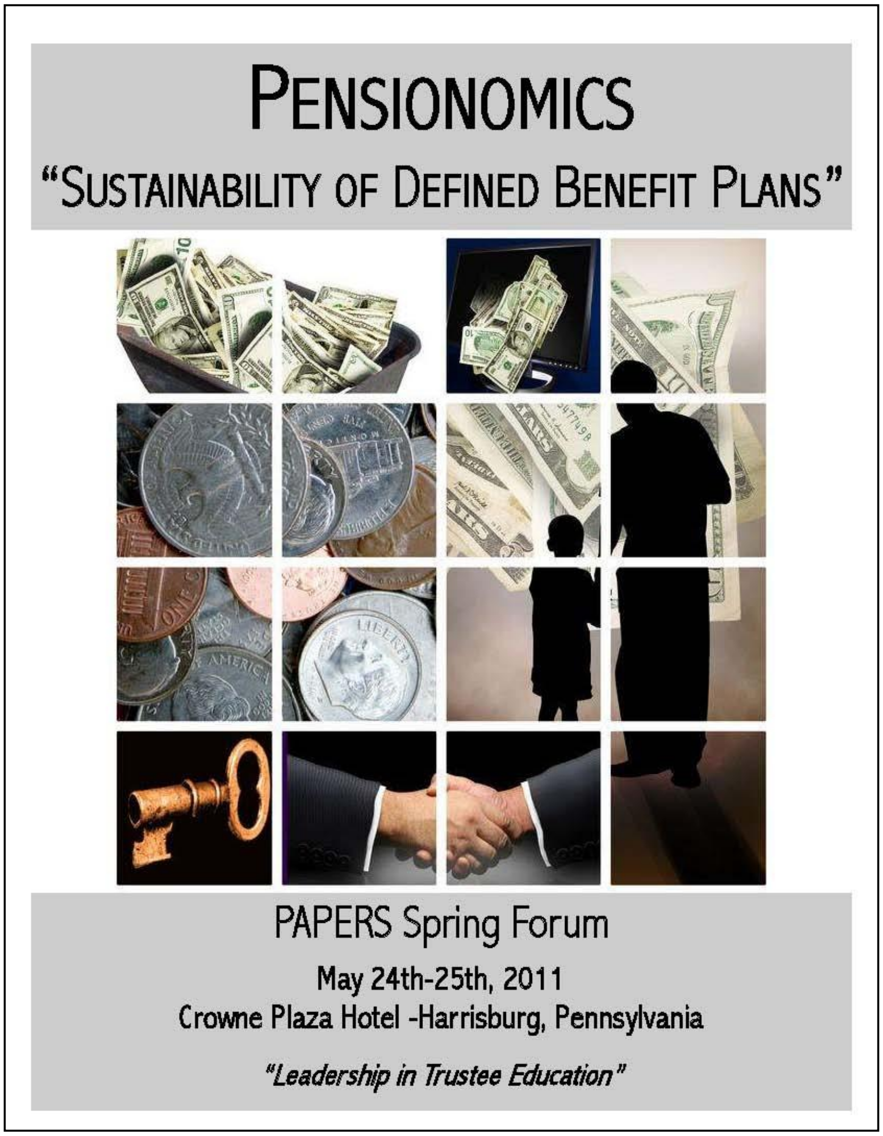
9th Annual PAPERS Forum

May 23-24, 2013
(Thursday-Friday)

The Forum location for both years will be the Hilton Hotel in downtown Harrisburg, PA

PLAN TO ATTEND............The PAPERS Forum

brings together nearly 150 attendees from Pennsylvania's public pension plans and asset managers in one location. The 7th annual Forum takes place May 24-25, 2011 at The Crowne Plaza Hotel in downtown Harrisburg.



Inside you'll find the conference registration form on page 4 and hotel lodging/driving directions on page 5. Look for a separate conference packet with more details and the tentative agenda in your e-mail shortly. You may also access Forum information and any updates on the PAPERS website (www.pa-pers.org).

From the PAPERS Executive Director

I received the following email on February 9th from NCTR. Between legislation calling for state bankruptcies and the pension envy being promoted by those who would undo all the hard work that has been done to ensure safe and secure benefits for public employees, I think it is very important for everyone to make sure they know what is going on at the state and federal level to and for public pensions. As part of our mission at PAPERS, we will work to keep you informed of the things we become aware of that may affect your future. We look forward to seeing you at the 2011 PAPERS Forum on May 24th and 25th.

Jim Perry

PAPERS Executive Director

NATIONAL COUNCIL ON TEACHER RETIREMENT
www.NCTR.org

To All NCTR Members:

Washington, DC, February 9, 2011 -- The National Council on Teacher Retirement (NCTR) issued the following statement in response to new legislation proposed by Congressman Devin Nunes (R-CA) and others that would amend the Internal Revenue Code to impose new Federal reporting and disclosure requirements on State and local governments' retirement savings plans:

The National Council on Teacher Retirement today announced its opposition to public pension reporting legislation introduced by Representatives Devin Nunes (R-CA), Paul Ryan (R-WI) and Darrell Issa (R-CA) on February 9, 2011. Their proposal ignores the facts regarding the validity of current state and local government accounting rules and practices. The legislation would mandate inappropriate, costly federal reporting requirements on state and local retirement systems that could result in the loss of Federal tax-exempt status for plan sponsors' bonds if the IRS found fault with the filing of these reports.

The full press release may be viewed at:
http://www.nctr.org/pdf/NCTR%20press%20statement%20re%20Nunes%20intro%202011.pdf.

One of the newest and most exciting opportunities for PAPERS members is the ***CPPT (Certified Public Pension Trustee)*** certification program. All the sessions at the Forum will accrue credit hours toward this designation. Details will be outlined in the information about the Forum. A separate enrollment and fee will be required for this multi-year program.

More about the PAPERS Forum

Who Should Attend:

- Pension Fund Staff and Board of Trustees
- Public Pension Investment Officers, Portfolio Managers
- Investment Consultants, Asset Managers, Banks, Other Pension Service Providers

Why You Should Attend:

- Learn how other pension fund executives are strategizing for the coming year to deal with the current economic turmoil.
- Enjoy a highly interactive and educational program specifically tailored for institutional investors in Pennsylvania.
- Meet your peers, hear their firsthand experiences and share your ideas.
- Network with asset managers, service providers, consultants and asset managers.
- Take advantage of the panelists' presentations provided in the conference hand-out materials.
- Analyze various potential innovative investment opportunities available to pension funds.
- Earns credits for Continuing Professional Education credits and/or the Certified Public Pension Trustee (CPPT) program.

Sponsorship Levels

Gold.................................$5,000

- Named sponsor of meal function
- 4 complimentary registrations
- Recognition in program
- Complimentary exhibit space

Silver Exhibitor..................................$3,000

- 2 complimentary registrations
- Recognition in program
- Complimentary exhibit space

Silver..$2,500

- 2 complimentary registrations
- Recognition in program

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  Southfield, MI 48076-3723
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  Jersey City, NJ 07302
- **Milberg LLP**
  One Pennsylvania Plaza, Suite 4900
  New York, NY 10119-0165

PAPERS' corporate sponsors provide financial support beyond regular conference registration fees and annual membership dues. Additional sponsorship opportunities for the 2011 PAPERS Forum are still available. Contact PAPERS Executive Director Jim Perry *(717-651-0792 or perryja1@comcast.net)* today for more details about the various levels of support your company can provide.

Registration for 7th Annual PAPERS Forum

May 24-25, 2011 at The Crowne Plaza Hotel in downtown Harrisburg, PA

Each individual attending must submit a separate registration form no later than May 1, 2011 *(see earlier deadline for hotel reservations below)*.

Please check appropriate category:

- ❑ **Pension Plan Representatives** – Current (2011) PAPERS Participating Membership required
  - First individual from pension plan – complimentary
  - Each additional individual - $75
- ❑ **Service Provider Representatives -** *Firms providing investment management and legal services*
  Current (2011) PAPERS Associate Membership required
  - Each individual from organization - $750
- ❑ **Service Provider Representatives -** *Firms providing consulting services, exclusive of investment/legal*
  Current (2011) PAPERS Affiliate Membership required
  - Each individual from organization - $375
- ❑ **Gold Sponsors**
  Current (2011) PAPERS Membership required
  - Four complimentary registrations
  - Each additional registration - $750
- ❑ **Silver Sponsors & Silver Exhibitors**
  Current (2011) PAPERS Membership required
  - Two complimentary registrations
  - Each additional registration - $750

Individual's name ____

Preferred name for name tag ____

Representing (name of pension plan or company) ______________________________

Mailing address ____

City, State, Zip ____

Telephone number (______) _____-_________ E-mail address ______________________

Please indicate all Forum events that you plan to attend. This information is needed so arrangements for adequate seating & meals can be made.

Tuesday, May 24, 2011
- ❑ Continental breakfast
- ❑ Morning sessions
- ❑ Lunch
- ❑ Afternoon sessions
- ❑ Cocktail reception

Wednesday, May 25, 2011
- ❑ Continental breakfast
- ❑ Morning sessions
- ❑ Lunch
- ❑ Afternoon sessions

Full payment of any fees due must be included with this registration. You may pay the registration fee either by check or electronically through PayPal.

1. ***To pay by check.*** Please make check payable to: **PAPERS** and return with this application to:
   PAPERS, P.O. Box 61543, Harrisburg, PA 17106-1543
2. ***To use PayPal.*** Please access the PAPERS website (www.pa-pers.org) and click on "Spring Forum". Select the appropriate type of registration from the drop down box and follow the directions to have PayPal transfer the applicable fees automatically from your bank account to PAPERS. In addition to PayPal payment, you must also submit this registration form. Your completed conference registration form may either be mailed to: ***PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*** or scanned, saved and e-mailed to: ***douglas.b@verizon.net.***

The PAPERS Forum group rate for overnight lodging of $118 plus tax at The Crowne Plaza is guaranteed only for reservations made on or before 4/9/2011.

2011 PAPERS Forum

Directions/Hotel Information

The 2011 PAPERS Forum will be held at The Crowne Plaza Hotel just off Market Square in downtown Harrisburg. The hotel is conveniently located at 23 South Second Street, just steps away from Harrisburg's "Restaurant Row".

From New York/New Jersey - Take the George Washington Bridge to I-80 West, take 287 South to I-78 West to I-81 South, Exit 66. Take Front Street south approximately 5.5 miles to Chestnut Street. Turn left onto Chestnut Street; at the next light turn left onto Second Street and the hotel will be on the right.

From Philadelphia - Take PA Turnpike 76 West, get off at Exit 247, take I-283 North to I-83 south to Exit 43 (Second Street-Capitol complex). The hotel is located on the right at the third traffic, the intersection of Second & Chestnut Streets.

From Baltimore/Washington -Take I-83 North to Exit 43 (Second Street-Capitol complex). The hotel is located on the right at the third traffic, the intersection of Second & Chestnut Streets.

From Pittsburgh - Take PA Turnpike 76 to Exit 242, Take I-83 north to Exit 43 (Second Street-Capitol complex). The hotel is located on the right at the third traffic, the intersection of Second & Chestnut Streets.

Parking – A special conference rate valet parking for overnight guests in the hotel's underground parking garage will be $9/day, posted to the overnight room bill, with unlimited in and out service. Self-parking is available within walking distance of the hotel.

Train Service – The Harrisburg Amtrak station is just two blocks from the hotel.

Airport Service – The Harrisburg International Airport is located 9 miles east of Harrisburg in Middletown, PA. One way taxi fare to the hotel is approximately $25.

If you're interested in overnight lodging for the Forum

The Crowne Plaza Hotel

23 South Second Street, Harrisburg, PA 17101

Single or double rate - $118/night plus 11% taxes

The 7th annual PAPERS Forum will begin with breakfast on Tuesday, May 24, 2011 and continue through early afternoon on Wednesday, May 25, 2010. PAPERS has arranged a special room rate for attendees at the Forum who desire overnight lodging on May 23rd and/or 24th. The group rate of $118 per night can only be guaranteed if reservations are made on or before April 9, 2011. After April 9th, reservations will be accepted on a space and rate available basis only.

To make room reservations on-line, click on the following link to PAPERS Forum hotel reservations: **http://www.ihg.com/h/d/CP/1/en/rates?hotelCode=MDTDT&rateCode=PAP&_IATAno=99502056**

To make room reservations by phone, please call Toll Free Reservations @ 1-800-2CROWNE or The Crowne Plaza direct at 717-234-5021 and ask for group code PAP (PA Assn of Public Employee Retirement Systems).

For more information, including a virtual tour of The Crowne Plaza, visit the hotel website: www.CrownePlaza.com/cp-harrisburg

I've Got The Power!

Public Pension Funds as Advocates of Good in the World Markets

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

If a public pension fund could actually have self-esteem, then it is tempting to observe that – notwithstanding the anxiety of investing in today's economy – those in charge of U.S. public pension money should be enjoying a boost to their collective ego. This stems from the fact that over the past couple of years, much has been written about the fact that pension funds have been a very positive force in the investment world. They have the power – and they are using it to achieve good.

Public pension funds are a unique type of institutional investor in that, not only do they account for a substantial amount of the total holdings in U.S. publicly traded companies (approximately 10% of all outstanding shares), but they are typically focused on the long-term. In other words, they invest a lot of money, they are likely to stick around for a long time, and thus, they have the ability to influence the companies in which they put their beneficiaries' money. As such, there has been a rise in shareholder activism from these institutional investors, getting into the mix when it comes to shareholder litigation, proxy voting, and engagement with management on proposed mergers and acquisitions, to name a few.

The praise and recognition has come down multiple avenues. From a strictly economic perspective, Cornerstone Research has noted that securities class action settlements tend to be higher when a public pension plan is participating.[1] Of course, it could be that public pension funds only get involved in the larger cases or the ones with the more glaring acts of fraud, but there is still no denying the power of a large institutional investor – representing the retirement money of public employees – at the settlement table.

One scholar recently went so far as to call public pension funds good old-fashioned boat rockers, institutions committed not only to imposing corporate governance reforms but also achieving social, environmental, and even political goals.[2] Specifically, the author noted the ability of pension plans to influence a corporation's climate change statement or recommendations regarding diversity on the board of directors to address historically underrepresented groups. That article, published in the *Harvard Journal of Law and Policy*, even discussed the First Amendment implications of compelling citizens to submit to having their money used as political capital. This alone shows that the public pension world indeed has a saber to rattle.

Another writer in the *International Lawyer* observed that because public pension funds are accountable to the public, they often seek to advance the public good through socially responsible investing. This impetus, combined with the considerable clout they hold, makes public pension funds a good candidate to exert pressure on governments in Sub-Saharan Africa and promote liquidity in those countries, just as they used their influence to boycott businesses in South Africa during apartheid.[3]

All this is to say that, while keeping an eye on the retirement money of public employees may seem like a thankless job – as much for small plans as for large – many people out there are watching. And they are taking note of the force for positive change that public pension plans have been, and hopefully will continue to be.

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[1] Ellen M. Ryan and Laura E. Simmons, "Securities Class Action Settlements, 2009 Review and Analysis," *Cornerstone Research*, March 2009.
[2] Eric John Finseth, "Shareholder Activism by Public Pension Funds and the Rights of Dissenting Employees Under the First Amendment," *Harvard Journal of Law and Policy*, Winter 2011.
[3] Katherine Jackson, "Pension-Funding the Future: Encouraging the Sustainable and Socially Responsible Development of Securities Markets in Sub-Saharan Africa," *International Lawyer*, Summer 2010.

NYSE Issues a Report on Principles of Corporate Governance

Submitted by: Rosemary Kelly
Broadridge Financial Solutions/Member of PAPERS Corporate Advisory Committee

In response to the financial crisis of 2008 and 2009, the New York Stock Exchange (NYSE) formed a Commission of representatives from major corporations, investment banks, brokerage firms, institutions and market experts for the purpose of conducting a comprehensive review of corporate governance principles.

On September 23, 2010, The New York Stock Exchange Commission on Corporate Governance issued a report suggesting ten broad principles of corporate governance:

1. *The board's fundamental objective should be to build long term sustainable growth in shareholder value for the corporation, and the board is accountable to shareholders for its performance in achieving this objective.*
2. *While the board's responsibility for corporate governance has long been established, the critical role of management in establishing proper corporate governance has not been sufficiently recognized. The Commission believes that a key aspect of successful governance depends upon successful management of the company, as management has primary responsibility for creating an environment in which a culture of performance with integrity can flourish.*
3. *Shareholders have the right, a responsibility and a long term economic interest to vote their shares in a thoughtful manner, in recognition of the fact that voting decisions influence director behavior, corporate governance and conduct, and that voting decisions are one of the primary means of communicating with companies on issues of concern.*
4. *Good corporate governance should be integrated with the company's business strategy and objectives and should not be viewed simply as a compliance obligation separate from the company's long term business prospects.*
5. *Legislation and agency rulemaking are important to establish the basic tenets of corporate governance and ensure the efficiency of our markets. Beyond these fundamental principles, however, the Commission has a preference for market-based governance solutions whenever possible.*
6. *Good corporate governance includes transparency for corporations and investors, sound disclosure policies and communication beyond disclosure through dialogue and engagement as necessary and appropriate.*
7. *While independence and objectivity are necessary attributes of board members, companies must also strike the right balance between the appointment of independent and non-independent directors to ensure that there is an appropriate range and mix of expertise, diversity and knowledge on the board.*
8. *The Commission recognizes the influence that proxy advisory firms have on the market, and believes that such firms should be held to appropriate standards of transparency and accountability. The Commission commends the SEC for its issuance of the Concept Release on the U.S. Proxy System, which includes inviting comments on how such firms should be regulated.*
9. *The SEC should work with the NYSE and other exchanges to ease the burden of proxy voting and communication while encouraging greater participation by individual investors in the proxy voting process.*
10. *The SEC and/or the NYSE should consider a wide range of views to determine the impact of major corporate governance reforms on corporate performance over the last decade. The SEC and/or the NYSE should also periodically assess the impact of major corporate governance reforms on the promotion of sustainable, long term corporate growth and sustained profitability.*

Risk Based Asset Allocation: *A New Answer to an Old Question?*

Wai Lee, PhD, is the Chief Investment Officer & Director of Research for the Neuberger Berman Quantitative Investment Group and a member of the Firm's Asset Allocation Committee. Wai is the author of the book Theory and Methodology of Tactical Asset Allocation. He has served on the Advisory Board of *The Journal of Portfolio Management* since 1997. His research work has appeared in academic refereed journals and industry journals. Prior to joining Neuberger Berman, Dr. Lee was the head of the Quantitative Engineering Group at Credit Suisse Asset Management and in charge of quantitative research and risk management for the Global Balanced group at J.P. Morgan Investment Management.

In recent years, there has been an alarmingly large and growing amount of literature on portfolio construction approaches focused on risks and diversification rather than estimating expected returns. Numerous simulations, applied to different universes, have been documented in support of these approaches based on their apparent outperformance versus passive market-capitalization weighting or static, fixed weight portfolios. Many studies attribute the better performance of these risk-based asset allocation approaches to superior diversification. Given the absence of clearly defined investment objective functions behind these approaches, as well as the metrics used by these studies to evaluate ex-post performance, we attempt in a recent white paper to understand their theoretical underpinnings by putting them all in the same context of mean-variance efficiency.

Rather than adding to the already large collection of simulation results, in the white paper we use some simple examples to compare and contrast the portfolio and risk characteristics of these approaches. We also go into detail on the underpinnings of various asset allocation approaches, while spending a minute on what a "risk based approach" to asset allocation means and how it came to prominence as a discussion topic—not to mention as an investment product focus—in recent times.

Traditional strategic asset allocation—for example a typical 60%/40% portfolio of stocks and bonds—has been criticized for failing to provide diversification during the recent financial crisis, and the original assumptions that led to such weights have been called into question. Though now often forgotten, there were in fact specific reasons why 60/40 was selected as "optimal." Given the constraints at hand for many institutional investors—asset class views, constraints around leveraging and shorting, and reasonably high return requirements—such a mix was deemed the best choice. In light of performance in recent years, however, the observation is now being made on a widespread basis that such portfolios were not really diversified and that in terms of *risk* the weight to stocks and bonds was more like 85% and 15%, respectively.

This observation is actually not new at all, and was in fact known at the time. It was however reflective of the constraints in place for many investors at the time, which have since shifted in many cases. For instance, take leverage: in recent years many institutional investors have relaxed, at least to some extent, guidelines around their ability to have leverage in their portfolios. In our opinion this is a reasonable shift: if an unlevered investment in common stocks lost 40% in 2008 (although keep in mind that many companies leverage themselves with debt), while the average "leveraged" hedge fund lost 20% that same year, perhaps leverage should be viewed through a different lens. Regardless of the individual reasons for shifting attitudes and appetites toward leverage, we believe this has helped pave the way for these discussions around risk-based investment approaches and related investment products, as they typically require some leverage for lower volatility assets, such as fixed income, to achieve the desired risk profiles for effective diversification.

To the best of our knowledge, we are not aware of any theory that predicts, ex-ante, how any of the risk-based approaches and portfolios should perform relative to the market. If indeed a "more diversified" portfolio is expected to outperform the market portfolio, as some proponents of risk-based portfolios seem to suggest, then it must be the case that at least one other portfolio (likely to be "less diversified" in this case) is expected to

(continued on page 9)

Risk Based Asset Allocation

(continued from page 8)

underperform the market portfolio so that the market portfolio remains the market clearing equilibrium. We are convinced that the capital market equilibrium concept remains our compass. The market portfolio plays a unique role in investing, in that any portfolio that deviates from the market portfolio is active and outperforms the market only if it reflects more information on asset returns than the market portfolio. In our view, risk-based portfolios, as well as any other portfolios, regardless of how they are constructed, are no exception to this most fundamental concept of investing.

The preceding article reflects the views of the author and does not reflect the official views of the author's employer, Neuberger Berman.

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The article is presented solely for informational purposes and does not constitute investment, legal, accounting or tax advice. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. Opinions expressed herein are subject to change without notice. In preparing this article, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information obtained from published sources and/or prepared by third parties.

The white paper is forthcoming in the Journal of Portfolio Management. For additional information please contact QIG@nb.com.

The IPO Market in 2011: US Social Networking Firms Take the Spotlight

By: Kathleen S. Smith
Chairman and Principal
Renaissance Capital, Greenwich, CT

About Renaissance Capital
Renaissance Capital, founded in 1991 and headquartered in Greenwich, CT, is the leading global provider of independent IPO research to institutional investors. The Firm maintains the FTSE Renaissance IPO Index Series (Bloomberg index symbols: IPOS, IPOST, IPOSC, IPOAPX, IPOHKT), the definitive measure of IPO performance and the basis for ETF products. Renaissance Capital also provides IPO-focused investment management services as the advisor to the Global IPO Plus Fund (symbol: IPOSX), the first mutual fund to focus solely on investing in IPOs, and through separately managed institutional accounts.

LinkedIn, the First Social Networking IPO

Recent private market transactions and takeout rumors have rapidly pumped up the valuations of social networking and digital media enterprises such as Facebook ($52 billion), Twitter ($4-$6 billion) and Groupon ($6+ billion). As the Internet's largest online professional network, LinkedIn is gearing up to be the first social networking pure play to connect with public-market investors after filing its IPO registration statement with the SEC in late January. The IPO is expected to price during the 2Q11.

Since its launch in May 2003, LinkedIn has grown to connect more than 90 million registered members in 200 countries. By creating a free online profile, members can search and communicate with business contacts, learn about career opportunities, join industry groups, research organizations and share information. The company generates revenue from three product lines: 1) hiring solutions (41%) for companies and organizations to search active and passive job seekers based on industry, job function, geography, experience and education; 2) print and display ads (32%) that target its affluent and influential user network; and 3) premium subscriptions (27%) with enhanced search, communication and other functionality ($20-$100/month). To obtain a copy of our preliminary research report on LinkedIn, please contact us at renaissance@renaissancecapital.com.

(continued on page 10)

The IPO Market in 2011 *(continued from page 9)*

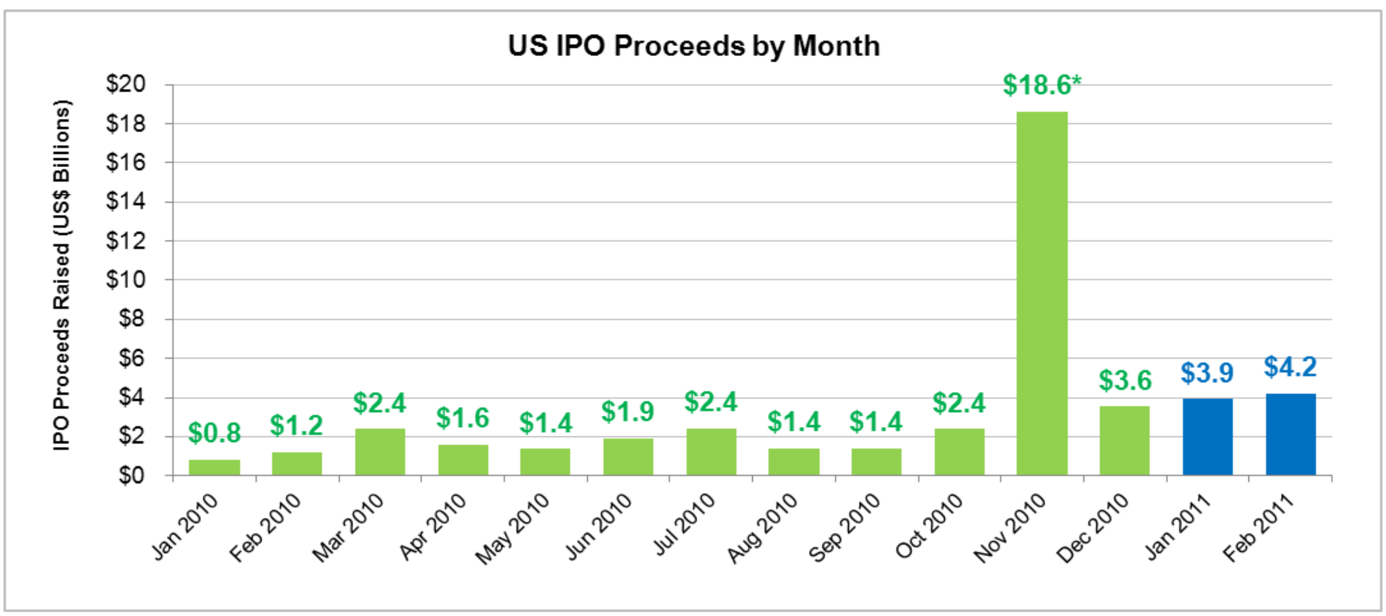
High-Profile Pipeline

The large number of telecom, tech and social networking companies in the pipeline may signal that the US economy is finally about to grow with new companies raising capital for job creation. Aside from LinkedIn, household names such as Skype and Pandora have already filed and Groupon, Zynga, Facebook, and HomeAway are reportedly gearing up for IPOs. In addition, there are dozens of other venture-backed US companies in the software, digital media and mobile sectors in the shadow pipeline.

US IPOs on Top Again

After last year's surge of IPOs in the Asia-Pacific region, US IPO issuance has taken the top perch so far in 2011. The reasons for this are several, but chief among them are the increasing quality and growth potential of US IPOs relative to Asia-Pacific offerings and the broad underperformance of Asia's equity markets. US IPO momentum is also building with a pipeline of high-profile deals.

So far this year, there have been 24 US IPOs, an 85% increase from the 13 seen in the first month and a half last year. These IPOs raised $8.1 billion, up materially from $1.9 billion last year, in part due to multi-billion dollar offerings from Nielsen (NLSN) and Kinder Morgan (KMI). After strong IPO issuance in November and December, the IPO market seems to be sustaining the momentum seen at the end of 2010. These are signs that the IPO market is back to a normal level of issuance that is expected in a growing economy.



**Includes General Motors' $15.7 billion IPO*

Conclusion

Overall, activity remains strong relative to last year and is so far almost back at pre-crisis levels. With high-profile deals being well received and overall IPO returns healthy, we expect this to continue. HCA's multi-billion dollar offering in March will be the largest PE-backed IPO in history and LinkedIn will be the inaugural social networking IPO.

Blowing the Whistle on Corporate Lobby: *Why Investors Should Push Back Against Attempts to Kill the Corporate Whistleblower Law*

By: Andrei Rado, Milberg LLP

Can the whistleblower provisions of the Dodd Frank law really accomplish anything meaningful? Corporations apparently think so. Hundreds have loosed lobbyists in Washington to persuade the Securities and Exchange Commission to dilute a determined statute through regulation.

The new law would pay providers of "original information" to the SEC that results in a penalty of $1 million or more between 10 and 30 percent of the penalty. The law also offers strong protection against retaliation.

But the world's biggest corporations are cranking the influence peddling levers to promote regulations that would sap the new law. According to the National Whistleblower Center, major corporate lobby groups, including the Financial Services Roundtable, the Association of Corporate Counsel and the Chamber of Commerce, formally petitioned the Commodity Futures Trading Commission to institute unprecedented restrictions on the right of employees to contact government agencies and report wrongdoing. For example, according to the report, the Roundtable demanded that the CFTC "require" whistleblowers to use "employer sponsored" "reporting procedures" and also asked the Commission to implement rules that would permit companies to "sanction" whistleblowers whose reports to law enforcement agencies caused "harm to the company."

The main plea by corporations is that incentivizing employees to report corporate fraud to the SEC undercuts internal fraud reporting and compliance programs. These would be the compliance programs that Lehman Brothers, Countrywide, Bear Stearns, AIG, Worldcom, Enron, Tyco, Citibank, Merrill Lynch, Wachovia and New Century Financial had. And let's not forget the compliance programs of hundreds of companies that enabled their management and directors to backdate stock options without detection.

Today's corporate compliance programs are a product of the Sarbanes Oxley Act (SOX), passed after the accounting scandals of the early 2000s. SOX had a whistleblower provision, but required employees to exhaust a company's internal reporting process. Any whistleblower hardy enough to withstand that gauntlet was then treated to having to go through the Department of Labor with any complaint of retaliation. Under the new law, whistleblowers can go directly to the SEC with their information and to federal district court to complain of retaliation.

Internal programs have demonstrably failed to prevent large scale fraud, at least the kind that can bring down a "too big to fail" company. Understating liabilities by billions (as many companies did in the lead up the 2008 meltdown) is done by top executives, or with their knowledge or willful blindness. Because they run the company, they can punch through any confidentiality screens and scale any "Chinese wall."

In passing the new whistleblower protections, Congress understood that protecting capital markets is more important than pretending that internal compliance programs do anything other than systematize the exposure and punishment of whistleblowers. If Congress thought internal reporting was sufficient, why did it pass a new law no longer requiring it?

What makes the corporate campaign effort most distasteful is that corporations are spending shareholder money to undermine something that will benefit shareholders. Institutional investors should not be shy about letting a company's board of directors know that spending their money to fund anti-shareholder efforts is unacceptable.

Corporations are scared because they know that giving insiders as much of an incentive to report fraud as it exists for engaging in it jeopardizes the Big Corporate way of life. They go along with fraud perpetrated by others (usually higher-ups) because they care about their careers and families and know, especially in hard economic times, that speaking up can devastate both. That Big Corporation is scared of the new whistleblower protections is telling. Everyone else, from shareholders to taxpayers, should be happy about this.

ABOUT THE AUTHOR Andrei Rado, a partner at Milberg LLP, focuses his practice on securities, shareholder, and consumer class actions, with a particular emphasis on investigating, with the help of Milberg's team of investigators and forensic accountants, potential actions for institutional and individual investors injured by corporate wrongdoing. He also heads the firm's corporate whistleblower practice and is the editor of Class Action Central, a consumer and securities class action information news site (www.classactioncentral.com).

UCM PARTNERS

Non-Agency RMBS Continue to Offer Superior Return Potential

This article is a summary of a longer paper that may be found in the e-library on the PAPERS website (http://www.pa-pers.org/newweb/library.html).

UCM Partners has published a white paper profiling the currently attractive relative value and other favorable investment attributes of non-agency residential mortgage-backed securities. These securities are an important component of our Opportunistic Mortgage, Active MBS, Core Fixed Income, and Short Duration strategies.

The white paper, "Non-Agency RMBS Continue to Offer Superior Return Potential", is available on the PAPERS e-library and website. The white paper document includes a brief primer on the non-agency RMBS sector, an introduction to our valuation methodology and a detailed explanation of our thesis.

In short, our view is that non-agency RMBS continue to offer investors the potential for superior risk-adjusted returns owing to: 1) strong relative yield (on a loss-adjusted basis); 2) multiple sources of potential downside protection; and 3) several potential catalysts – both fundamental and technical – for upside price appreciation. We believe these factors, combined with our view that the non-agency RMBS market remains 15-20% undervalued, present a highly compelling investment opportunity.

__UCM Partners__, founded in 1992, is a private, SEC registered, minority-owned and operated investment advisory boutique focused on mortgage-backed securities. UCM currently manages over $1 billion for a diverse base of institutional and wealth management clients and offers a wide array of MBS products, ranging from index-based passive and active strategies to absolute return hedge fund vehicles. UCM's track record in dedicated MBS portfolio management extends over ten years, and our UCM Active Mortgage-Backed Securities Strategy achieved top decile annualized performance for the 3-, 5- and 10-year periods ending December 31, 2010.[3] Past performance is no guarantee of future results. For more information, please visit __www.ucmpartners.com__ or contact Nancy Clark Wilson at nwilson@ucmpartners.com

Going Global:

Why Invest Outside the United States?

Submitted by: Yanni Partners

The world has changed, but have investors? Economies and capital markets operate on a global scale, with political and geographical distinctions becoming less important by the day. Many investors, however, still segment their portfolios geographically…

A Single Economy

At the dawn of 2011, the world is in the midst of a dramatic economic shift. National economies have converged to the point of creating a single global economy. Political borders have lost their economic significance. Consider the energy industry, and some of the largest companies: Exxon Mobil (U.S.), BP (United Kingdom), Royal Dutch Shell (Netherlands), Total (France), Petrobras (Brazil) and PetroChina (China). These resources to consumers worldwide. Global competition is not limited to the energy industry, and it is companies are engaged in a global competition to discover energy resources and deliver those starting to shake up world economic rankings for the first time in decades. What does this mean for investors? Most noticeably, it means that the United States has become a much smaller percentage of the global equity market.

(continued on page 15)

Going Global *(continued from page 14)*

International Diversification?

Investors have long been driven to expand their equity holdings beyond U.S. borders by the potential for increased diversification. International equity markets had the potential to decrease the risk of an equity portfolio while maintaining (or potentially increasing) its expected return. But now, as economies have converged, the diversification potential of international equities has diminished. The correlation between U.S. and international equities has increased substantially since the late 1990s. With correlations so high, why should investors still allocate capital outside of the United States?

1. **Investment opportunity set**
   Domestic and international managers are limited to the companies they can invest in. Consider again the energy sector: Of the six companies listed earlier, only one is domiciled in the United States. Investors looking for exposure to large, integrated oil companies would be extremely limited if they restricted their search to U.S. companies.
2. **Limiting historical data**
   Investors cannot base their future allocation strategy on historical data alone. Investors must also consider global economic trends and how these are likely to shape the future.
3. **Global economic trends**
   Global GDP rankings are constantly changing. Over the past 20 years, China has gone from 10th place to 2nd. With significant economic growth occurring outside the United States, investors cannot afford to exclude such a large part of the global market.
4. **Growing middle class in emerging markets**
   Brazil, Russia, India and China (BRIC countries) are on the forefront of an economic development and are expected to have the fastest-growing middle class – known for driving consumption – over the next 10 years. The United States and the Eurozone are expected to have a middle class growth of 5-10% over the next 10 years, while BRIC countries are expecting growth closer to 150%![1]

Investment managers that have the flexibility to consider global pools of equities have demonstrated a higher probability of outperforming their benchmarks than active managers in shallower pools (such as domestic, large-cap value equities). While a single, global allocation may not be appropriate for all portfolios, non-U.S. investment exposure is likely to improve the potential to profit from economic growth – regardless of where that growth originates.

[1] Source: Wilson, Dominic and Roopa Purushothaman, 2003, "Dreaming with BRICs: The Path to 2050," Global Economics Paper Number 99
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The Importance of Country Allocation for International Equity Performance

Historically, country allocation has been extremely important for international equity portfolio performance. This was borne out in a 2005 study we conducted on the performances of international and global equity mutual funds[4]. Using data on the funds' country allocation weightings[5], we were able to decompose the funds' return outperformances relative to their benchmarks into two components: (1) country allocation performance, and (2) a stock selection performance. We found that almost all of the funds that outperformed their

[4] "Country Allocation and Mutual Fund Returns," by Leila Heckman and John Mullin. White paper available upon request.
[5] The data were supplied by EPFR Global.

(continued on page 14)

The Importance of Country Allocation *(continued from page 13)*

benchmarks also had positive country allocation performance, which implies that very few funds outperformed their benchmarks without getting country allocation “right.” We also found that most funds that underperformed their benchmarks had negative country allocation performance, which implies that few funds underperformed their benchmarks without getting country allocation “wrong.”

Our country allocation research, which has been published monthly since 1992, indicates that a disciplined, top-down approach to country allocation can produce portfolio outperformance by getting country allocation “right.” This outperformance can be achieved by systematically overweighting and underweighting markets around the globe using indicators of value, growth, risk, momentum, and sentiment.

There are many reasons to think that a disciplined, top-down approach to country allocation will continue to work well in the future. Among the reasons are three persistent facts of life: human nature, the “home country bias,” and important differences across countries.

Human nature does not change much, if at all. The financial markets are still ruled—as they have always been—by greed and fear. Markets gyrate from extremes of pessimism to extremes of optimism and back again. These excessive movements create exploitable inefficiencies. Back in 2007, Chinese internet stocks were all the rage, and enthusiasm for the market was high. Consequently, market valuation multiples grew excessive. A systematic approach that looked past the elation and took valuations into account would have begun to reduce positions in China and benefited from that market’s underperformance in the first half of 2008.On the flip side, market sentiment was extremely depressed in Continental Europe in early 2009, and this was reflected in unprecedentedly low valuation multiples in several countries. A systematic approach that looked past the pessimism and took the low multiples into account would have generated a great deal of alpha as 2009 progressed.

The “home country bias” is still a major feature of international markets. In other words, investors tend to overweight their home markets to a substantial degree. For example, U.S. financial institutions invest a far greater share of their equity portfolios in the U.S. market (70%) than they would if they had market-capitalization weighted portfolios (43%). The same pattern is observed across the globe. This leads to inefficiencies, because local and “idiosyncratic” risks that are potentially diversifiable in a truly global portfolio get priced as “systematic” risks. This inefficiency creates opportunities.[6]

Substantial cross-country differences persist across a host of dimensions: population dynamics, growth rates, savings rates, debt levels, etc. For example, central government debt ratios range from 6% in Chile to 178% in Japan. Other persistent differences include levels of per capita GDP, differences in natural resource endowments, and differences in economic and political institutions.

We believe that the persistence of human nature, the home country bias, and cross-country differences will accompany the continued importance of country allocation and the continued efficacy of a systematic approach to equity allocation.

About the author

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[6] Source: Greenwich Associates (2007).

Filing Proofs of Claim:

Recovering Money Rightly Owed to Pensioners

By: Darren J. Check, Esq. & Jonathan R. Davidson, Esq., *Barroway Topaz Kessler Meltzer Check, LLP*

Trustees can easily overlook an important way to retrieve money rightly owed to their funds and enable them to continue to fulfill their fiduciary duty to plan members: by properly filing proofs of claim in securities class action settlements.

Investors may be surprised to learn their funds regularly leave money on the table in securities class action settlements. Researchers have found that a surprisingly low percentage of institutional investors actually file claims, which annually produce billions in cash to be distributed to defrauded investors. Failure to collect part of a settlement can also lead to lawsuits for those responsible for filing these claim forms.

Statistical Data

Professors James Cox and Randall Thomas found in a 2005 study that only 28% of institutional investors surveyed actually filed claims in class action settlements. This percentage seemed surprisingly low at that time, considering that in 2004, securities fraud class action settlements produced $5.45 billion in cash to be distributed to defrauded investors. Cox and Thomas suggested that institutional investors annually were leaving from $1 billion to $2 billion in unclaimed settlement money on the table.

Since that study, from 2005 through 2009, 518 securities class action settlements have yielded over $42 billion in settlement proceeds for distribution to investors. Given these numbers and the current economic climate, it seems counterintuitive at best that pension funds would fail to return these monies to their respective coffers. Furthermore, institutional investors' failure to file claim forms also leads to a financial windfall for those fiduciaries that do file in a timely manner. Since settlements are distributed on a pro-rata basis, the investors that file claims can be awarded additional money.

Why Institutions Fail to File Proofs of Claim

There are several reasons why institutions are failing to file proof of claim forms in securities class action settlements, including: 1) a general lack of monitoring by the management of institutions; not receiving the settlement notice (unaware of the settlement); 3) the perception that the cost associated with filing the proof of claim is greater than any potential recovery; 4) simply not filing on time or failing to correct errors on the form causing rejection; and 5) submitting duplicative filings causing rejection of the claim.

Perhaps the most complex reason institutions fail to file is their inability to secure and maintain access to historical data. Given that class periods for securities class actions can span ten years by the time a settlement is announced, it is incumbent upon institutions to keep historical transaction records or be able to rely on third-party providers to compile old data when it is time to file proofs of claim. This task is made more difficult when an institution changes custodian. Typically, the former custodian does not transfer historical records. Therefore, it is the responsibility of the institutional investor to ensure that its old custodian will still file for all actions in which it has the records to perfect and submit a claim, or ensure that the old custodian is contractually required to transfer the fund's records to the new custodian at the end of the business relationship.

What Can be Done?

The challenge for institutional investors is to establish a system to effectively monitor their investment portfolios with an eye toward making informed decisions on whether, and how best, to actively pursue any financial losses, including the diligent filing of proof of claim forms when there is a recovery in securities class action settlements. There are many options for plans to monitor their portfolios, including using internal staff, negotiating with a custodian to perform this important service, hiring a third-party claims advisory service and engaging external securities litigation counsel. Regardless of which option is chosen, institutional

(continued on page 16)

Filing Proofs of Claims

(continued from page 15)

investors should put procedures in place for receiving alerts when securities class action recoveries become available and submitting timely completed claim forms. This process should also include a mechanism for tracking submitted claims to ensure that any mistakes on the forms are corrected and all entitled monies are received.

Several best practices have been put forward to help institutional investors implement loss recovery procedures to participate in class action settlements when they are an eligible class member. These include:

1) the need for access to historical data should be addressed at the outset of the relationship with the custodian bank;
2) designate one individual or entity to file proof of claim forms;
3) complete and file timely proof of claim forms with all supporting documentary evidence;
4) monitor filed claims through processing and the ultimate receipt of money;
5) know where settlement proceeds should be deposited; and
6) require custodians or other filing parties to properly account for settlement payments when received (this protects trustees should they ever be questioned by their members as to how much the fund has recovered from class action settlements).

Conclusion

The failure of many institutional investors to submit claims in settled securities class actions is a problem on several levels, and the money they would likely recover is by no means insignificant. But even if a fund recovers only enough settlement proceeds in a given year to pay for a portion of one member's pension benefit, isn't this a worthwhile pursuit?

As of the fourth quarter of 2010, approximately $25 billion in class action settlements and Securities and Exchange Commission civil penalties were awaiting disbursement to investors. Trustees should ask if their pension fund will be taking part in some of those recoveries and find out if they have missed out on any settlements in the past. From both an economic and fiduciary standpoint, institutional investors need to be certain they are recouping every dollar owed to their funds from securities class action settlements. Given the confluence of issues facing pension plans, it is essential, now more than ever, to ensure that a proper system is in place to actively track and manage class action claims. Implementing such a system is a wise safe harbor that allows trustees to fulfill their fiduciary obligations, fend off potential litigation and, most importantly, recover money rightly owed to their pensioners.

The preceding article is a summary of a longer paper that may be found on the PAPERS website (http://www.pa-pers.org/newweb/library.html).

Asset Allocation by Institutional Investors after the Recent Financial Crisis

By: Robert Pozen, Betsy Palmer, and Natalie Shapiro, Ph.D.

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Published by MFS Institutional Advisors, Inc.

The financial crisis of 2008 to 2009 involved the largest upheaval in the securities markets since the Great Depression. After this crisis, institutional investors changed their asset allocations — both actively, by shifting monies among asset categories, and passively, by not fully rebalancing. This article first examines the main trends in asset allocation from 2007 to 2009 by institutional investors in the United States, Europe, Canada, the United Kingdom, Japan, and Asia ex-Japan. Then, it evaluates these trends in light of the policy objectives driving them.

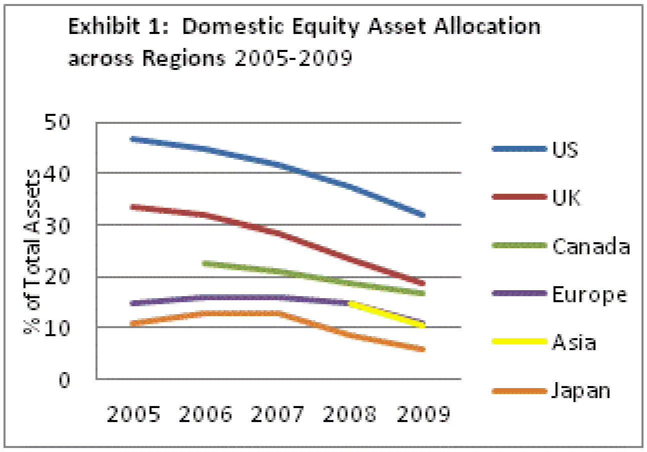
(continued on page 17)

Asset Allocation *(continued from page 16)*

Shifts by geography

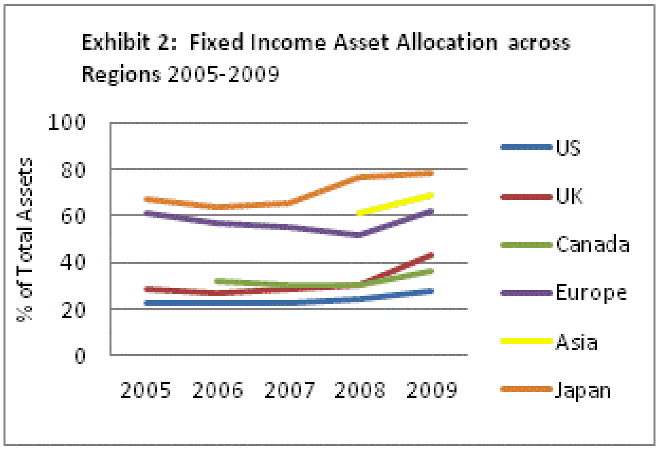
Institutional investors have shifted their asset allocation in the aftermath of the global stock meltdown. While allocations to various asset classes remained relatively stable from 2005 to 2006, shifts began to emerge by 2007. Although not all regions started with the same baseline for various asset categories, some themes emerge, including reducing exposure to domestic equities in favor of global/international equities (Exhibit 1), increasing fixed-income allocations (Exhibit 2), and generally increasing alternative allocations (Exhibit 3).

Exhibit 1: Domestic equity allocations declined



Source: Greenwich Associates Survey Data, 2005 – 2009

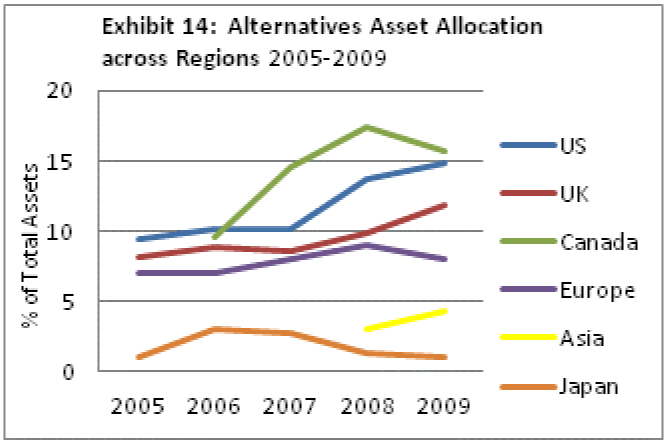
Exhibit 2: Fixed-income allocations increased



Source: Greenwich Associates Survey Data, 2005 – 2009

This article is a summary of a longer paper that may be found on the PAPERS website (http://www.pa-pers.org/newweb/library.html).

Exhibit 3: Alternative allocations generally increased



Source: Greenwich Associates Survey Data, 2005 – 2009

Equity trends positive

The move within equities away from home-country bias and toward better geographic diversification was a continuation of a trend that was already in place before the financial crisis — and one that was well supported by the diversification benefits of this action.

Merits of fixed-income trend debatable

The merits of the decrease in equity in favor of fixed income are more debatable. This shift is understandable, because high-quality bonds were one of the few asset categories with high returns and good liquidity during the financial crisis. Yet this shift seems inconsistent with the expected returns of 7% to 8% per annum assumed by many plans. Such a shift is likely to lock in long-term funding deficits. Increasing allocations to bonds in an environment of low interest rates exposes plans to considerable interest rate risk.

Rush to alternatives likely to disappoint

Faced with huge funding challenges or target return shortfalls, many institutions have allocated to alternatives. This trend is based on hopes for higher returns with lower volatility. However, it is not certain that investors will be able to accomplish these objectives. Lower fees charged by alternative funds would certainly help. But we believe accessing the funds of top-performing managers is much more important to returns than fee levels. In addition, delivering strong risk-adjusted returns will probably be more challenging as new opportunities are unlikely to keep up with the flood of new money pouring into the alternatives arena.