PAPERS

Pennsylvania Association of Public Employee Retirement Systems

PO Box 61543, Harrisburg, PA 17106-1543

Website: ***www.pa-pers.org***

Spring 2013 (Vol. 8 No. 1)

In This Issue

Looking Ahead at More PAPERS Opportunities

7th Annual Fall Workshop

Sept. 12-13, 2013
(Thursday-Friday)
Sheraton Station Square
300 W. Station Sq. Dr.
Pittsburgh, PA 15219

Don't Miss these Forum Deadlines

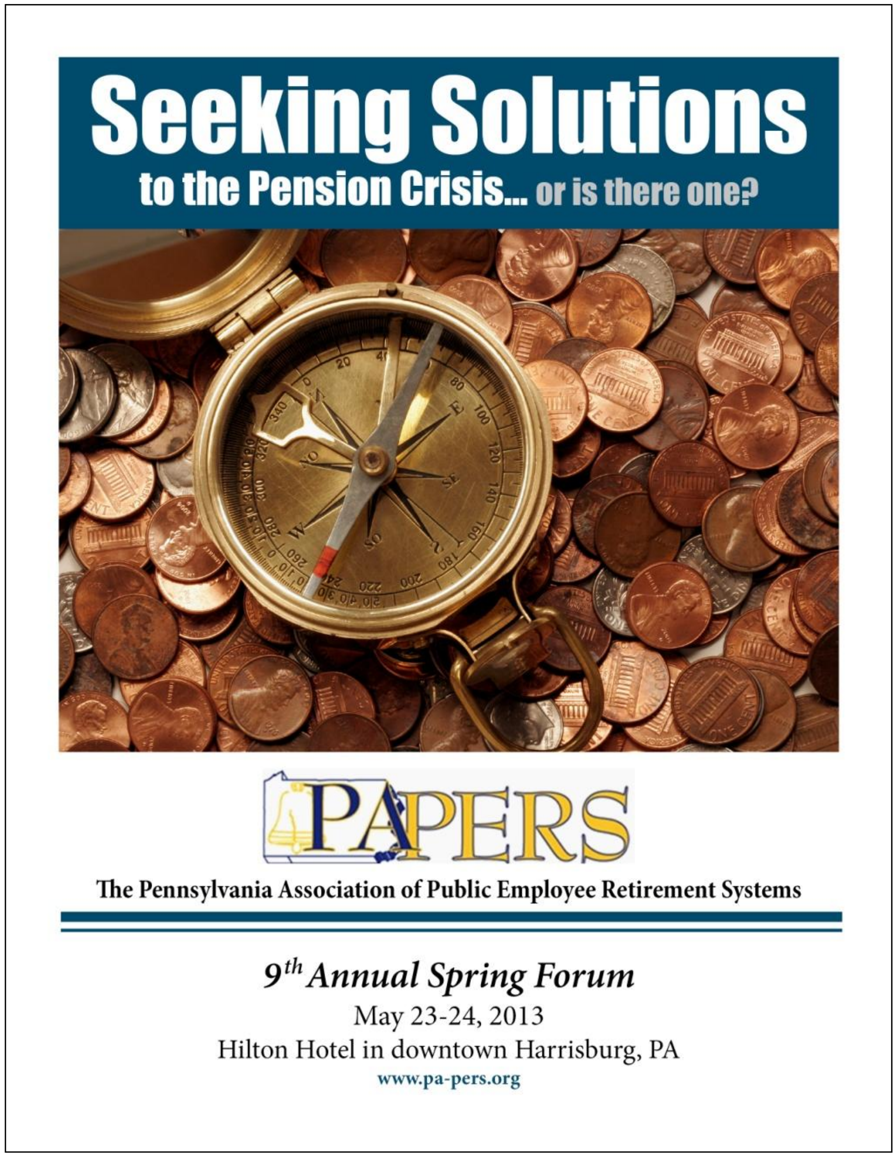
4/22/2013 - Hotel Reservations

5/1/2013 -

- **Conference Registration**
- **RSVP for Reception @ the State Museum of PA**

YOUR INVITATION TO ATTEND

The PAPERS Forum brings together 125 attendees from Pennsylvania's public pension plans and service providers in one location. The 9th annual Forum takes place May 23-24, 2013 at the Hilton Hotel in downtown Harrisburg.



Inside you'll find the conference agenda on pages 3-5, a registration form on page 8 and hotel lodging/driving directions on page 9. You may also access Forum information, including a fillable PDF version of the registration form, and any agenda updates on the PAPERS website (www.pa-pers.org).

From the PAPERS Executive Director

PUBLIC PENSION CRISIS:
REAL OR IMAGINED?

There has been a lot of talk lately about a looming Pension Crisis. The Governor recently reported on the unfunded obligations that have been allowed to accumulate at the two large statewide pension funds due to intentional systematic underfunding over the past ten plus years. Now they are talking about solutions that involve benefit reductions for existing employees and new defined contribution plans for new hires even though current employees have shouldered more than their fair share of the funding that has taken place.

In light of these events PAPERS is planning to devote a major portion of our spring Forum to analyzing these issues and looking for equitable solutions to the problem. The PAPERS Board hopes that you will join us for this critical discussion of the future of Public Employee Pension Benefits in Pennsylvania. This newsletter is filled with all the details of the 9th annual Forum scheduled for Thursday-Friday, May 2-3-24, 2013, in downtown Harrisburg.

As you probably already know PAPERS is devoted to educating Pension Trustees and staff in prudent management practices and we believe these issues are very important to all Public Pension Trustees. You need to stay involved so that you are aware of what kind of one size fixes all benefit changes that are being proposed for your plans.

We will spend May 24th, the second day of our conference program, defining and seeking solutions to these critical issues. Plan to be there to learn what is being proposed and to share your thoughts on these critical issues.

Jim Perry
PAPERS Executive Director

PAPERS Pennsylvania Association of Public Employee Retirement Systems

9th Annual Spring Forum Program Agenda

Thursday, May 23 – Friday, May 24, 2013
The Hilton Hotel, Harrisburg, Pennsylvania

Protecting Public Employee Benefits
Seeking Solutions to the Pension Crisis….Or Is There One?

All events are located on the second floor of the hotel

Wednesday, May 22nd

6:30 PM – 8:00 PM **Conference Registration..York Room Pre-Function Area**

7:00 PM – 9:00 PM **PAPERS Board Dinner Meeting .... Governor Room**

Thursday, May 23rd

7:30 AM- 5:00 PM **Conference Registration/Exhibits..........................York Room Pre-Function Area**

7:30 AM- 8:00 AM **Breakfast... Juniata/Delaware Rooms**

All workshop sessions on Thursday take place in the Carlisle Room

8:15 AM- 8:45 AM **PAPERS Welcome**.................................. James Perry, *PAPERS Executive Director*
Certified Public Pension Trustee Program Overview
Recognition of CPPT Graduates Krista Rogers & Jonathan Davidson

8:45 AM– 9:30 AM **Investment Consequences of Fiscal Irresponsibility and Unlimited Easing**
Speaker ....Zane Brown, *Lord Abbett Partner & Senior Fixed Income Strategist*

Contradicting policies from governments and central banks present conflicting signals for investments. Will inflation be contained by slow economic growth or amplified through excessive monetary growth? Has the search for yield driven fixed income beyond reasonable levels? If the Fed backs away from quantitative easing will housing and refinancing be squelched, pushing economic growth to zero? An explanation of global policy conflicts will promote discussion about investment consequences and inform investment decisions.

9:30 AM–10:15 AM **Risk Premia Investing**
Speaker .... Lauren Ferry, Schroders Americas Product Specialist

Where were the sources of portfolio returns in the 70s, 80s, 90s & early 2000s? What will be the key sources of portfolio returns going forward? Can we build better portfolios? Should "risk parity" play a role in portfolios? How should we think about risk premia vs. asset classes?

10:15 AM–10:30 AM **Morning Break..York Room Pre-Function Area**

Spring Forum Program Agenda *(continued)*

10:30 AM-11:15 AM **Implementing the New GASB Rules**
Speakers...................... Brian Carl, *PA Public School Employees' Retirement System*
Joseph Seibert, *KPMG*

This session will focus on the accounting changes that GASB now requires for Public Plans and review where you should be at this point in time to insure your compliance.

11:15 AM-12:00 PM **Life Settlements**
Speaker .... William Corry, *Senior Managing Partner Corry Capital Advisors*

Mr. Corry will discuss Life Settlement investing as an institutional investment vehicle, explaining the process and discuss how they fit into the capital market structure.

12:15 PM - 1:15 PM **Lunch .... Juniata/Delaware Rooms**
Views from the Federal Securities & Exchange Commission
Speaker ....Craig Lewis, *Director/Division of Risk, Strategy, & Financial Innovation*

1:15 PM – 2:15 PM **Multiple Approaches to Unlocking Emerging Markets**
Discussion Leader......... Seth M. Lynn, Jr., *Dahab Associates, Inc. Senior Consultant*
Panelists ....Morgan Harting, *AllianceBernstein*
Brian Faleiro, *Neuberger Berman*
Gaurav Mallik, *State Street Global Portfolio Manager*

The world has become truly flat in our new hyper-connected environment. Basically, today's global business playing fields have become so level that developed markets no longer have the upper hand. Exciting opportunities are incubating in the developing economies, never before considered to be global competitors. Can you afford to ignore these emerging markets? What are the risks? Is this a passive or active opportunity? This panel will address some of the attractions and challenges of investing in emerging markets.

2:15 PM – 3:15 PM **Back to the Future: A Fresh Look at an Old Friend - Indexed Investing**
Moderator..............................Al Neubert, *SecuredGrowth Quantitative Research, Inc.*
Speakers............................ James Allen, *PA Municipal Retirement System Secretary*
Robert Jaeger, *Bank of New York Mellon*
Walter Lenhard, *Vanguard Senior Investment Strategist*

Over the past few years, active and hedge fund managers have been badly beaten by the major indexes. One of the main culprits continues to be high management fees and high turnover. This session will take us back to the basics on plain vanilla indexing but also will look at all the index strategies available to investors. Some of these strategies include alternative weighting schemes, not only by fundamentals, but by risk characteristics, but all with a common theme of low costs. As with all innovations and investment return promises, even some of these index strategies come with the caution of Caveat Emptor!

3:15 PM – 3:30 PM **Afternoon Break ....York Room Pre-Function Area**

3:30 PM – 4:15 PM **Rethinking Asset Allocation and Risk Management for Public Pensions**
Speaker .... Sean McShea, *Ryan Labs President*

This presentation will take into consideration the new accounting GASB 67 rule, the new Moody's Credit Rating methodologies and additional SEC requirements for municipal disclosure. Mr. McShea will highlight the key problems facing public pensions and potential solutions. Sean will share observations on a local PA pension plan and incorporate the key risks to the current taxpayer, bondholders and plan participants.

Spring Forum Program Agenda *(continued)*

4:15 PM – 5:00 PM **Fiduciary Duty 101**
Speaker .... To be determined, *Bernstein Litowitz Berger & Grossman LLP*

6:00 PM – 8:00 PM Reception/Tour at The State Museum of Pennsylvania, 300 North Street

Hosted by **Kessler Topaz Meltzer & Check, LLP**

All three floors of the museum will be open for private touring by PAPERS guests; you are welcome to bring along your family members for this evening. Museum educators will be available at some locations to provide highlights for your visit. A gala food and beverage buffet will be located in the third floor Mammal Hall and the popular Planetarium will be open!

Friday, May 24th

7:30 AM-12:00 PM **Conference Registration/Exhibits .... Juniata Room Pre-Function Area**

7:30 AM - 8:00 AM **Breakfast .... Allegheny Room**

All workshop sessions on Friday take place in the Juniata/Delaware Rooms

8:15 AM – 9:00 AM **Communications and Media Issues**
Speaker .... Charlie Gerow, *Quantum Communications*

9:00 AM - 9:45 AM **Plan Design from a Local Plan Perspective**
Speaker .... Chuck Friedlander, *Municipal Finance Partners, Inc.*

Chuck will discuss Plan Design and the legal restrictions on local plans. He will also talk about457 plans and other savings vehicles and the requirements for implementing these alternatives in local pension plans.

9:45 AM-10:00 AM **Morning Break .... Juniata Room Pre-Function Area**

10:00 AM-10:45 AM **Discussion of Challenges Facing Pennsylvania Public Pension Plans**
Presenter .... James Grossman, *PSERS*

Jim will discuss and illustrate the funded status and future liabilities of PA statewide and local Pension Plans.

10:45 AM–12:00 PM **Funding and Benefits Structure Issues in PA Public Plans Round Tables**
Facilitator .... Timothy Haluszczak, *SteelBridge Ventures Consulting*

The participants will join together in small groups to brainstorm and develop ideas to be included in a white paper to be presented to the legislature for their consideration as they work to address some of the issues facing Pennsylvania Public Pension Plans.

12:00 PM - 1:00 PM **Closing Luncheon .... Allegheny Room**

As of 3/15/2013 – subject to change

Special Thanks to our 2013 Forum Sponsors

Gold Sponsor

Kessler Topaz Meltzer Check, LLP
280 King of Prussia Rd
Radnor, PA 19087

*In addition to contributing to the conference at this highest level of support, **Kessler Topaz Meltzer Check LLP** has planned and is underwriting the entire cost of the special Thursday evening (May 23rd) reception at The State Museum of PA.*

Silver Exhibitors

Bernstein Litowitz Berger & Grossman LLP
1285 Avenue of the Americas,
38th Floor
New York, NY 10019

Corry Capital Advisors, LLC
1100 Liberty Ave, Suite C3
Pittsburgh, PA 15222

Neuberger Berman
605 Third Avenue, 3rd Floor
New York, NY 10158

PAPERS' corporate sponsors provide financial support beyond regular conference registration fees and annual membership dues. Additional sponsorship opportunities for the 2013 PAPERS Forum are still available by contacting PAPERS Executive Director Jim Perry *(717-651-0792 or perryja1@comcast.net)* today for more details.

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Pittsburgh, PA 15258

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116 Devon Road
Albertson, NY 11507

Delaware Investments
2005 Market Street
37th Floor
Philadelphia, PA 19103

Lord, Abbett & Co.
90 Hudson Street
Jersey City, NJ 07302

Ryan Labs Asset Management
500 Fifth Avenue,
Suite 2560
New York, NY 10110

Schroders Investment Management
875 Third Ave. 22nd Floor
New York, NY 10022

State Street Global Advisors
One Lincoln Street 33rd floor
Boston, MA 02111-2900

Vanguard
100 Vanguard Blvd.
Malvern, PA 19355

More about the PAPERS Forum

Meet our Luncheon Speaker

Craig M. Lewis is Chief Economist and Director of the Division of Risk, Strategy, and Financial Innovation at the U.S. Securities and Exchange Commission. He is currently on leave from Vanderbilt University where he is the Madison S. Wigginton Professor of Finance at the Owen Graduate School of Management.

He first served at the SEC as a visiting Economic Fellow from January 2010 through July 2010, and subsequently returned in the same capacity in January 2011. Lewis has conducted research on volatility in stock and futures markets, margin adequacy, corporate earnings management, corporate financial policy, executive compensation, selective disclosure, and herd behavior by equity research analysts. His research has been published in the Journal of Financial Economics, Review of Financial Studies, Journal of Econometrics, Journal of Financial and Quantitative Analysis, among other places.

He is associate editor of the Journal of Corporate Finance, Journal of Business Accounting and Finance, and the North-American Journal of Economics and Finance, and has been associate editor of the Journal of Financial Research.

Become a Member of PAPERS

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

Who Should Attend the Forum

- 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 the Forum

- 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.

Forum Sponsorships

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

Registration for 9th Annual PAPERS Forum

May 23-24, 2013 at The Hilton Hotel in downtown Harrisburg, PA

Each individual attending must submit a separate registration form.

Conference Registration Deadline - May 1, 2013

Please indicate appropriate category (check one only):

☐ **Pension Plan Representatives** – Current (2013) 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 (2013) PAPERS Associate Membership required
- ○ Each individual from organization - $750

☐ **Service Provider Representatives** - *Firms providing consulting services, exclusive of investment/legal*
Current (2013) PAPERS Affiliate Membership required
- ○ Each individual from organization - $375

☐ **Gold Sponsors**
Current (2013) PAPERS Membership required
- ○ Four complimentary registrations
- ○ Each additional registration - $750

☐ **Silver Sponsors & Silver Exhibitors**
Current (2013) 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 (needed seating & meals arrangements):

Thursday, May 23, 2013
- ☐ Continental breakfast
- ☐ Morning sessions
- ☐ Lunch
- ☐ Afternoon sessions
- ☐ Cocktail reception @ State Museum of PA

Friday, May 24, 2013
- ☐ Continental breakfast
- ☐ Morning sessions
- ☐ Lunch

☐ **Check if interested in CPPT (Certified Public Pension Trustee) Program**

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 $124 plus tax at The Harrisburg Hilton is guaranteed only for reservations made on or before 4/22/2013.

2013 PAPERS Forum

Directions/Hotel Information

The 2013 PAPERS Forum returns to the Harrisburg Hilton on Market Square in downtown Harrisburg. The hotel is conveniently located at One North 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 Market Street. Turn left onto Market Street; the hotel entrance is one block on the left just after crossing Second St.

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). At the fourth traffic light, turn right onto Market Street and the hotel entrance is on the left.

From Baltimore/Washington
Take I-83 North to Exit 43 (Second Street-Capitol complex). At the fourth traffic light, turn right onto Market Street and the hotel entrance is on the left.

From Pittsburgh
Take PA Turnpike 76 to Exit 242, Take I-83 north to Exit 43 (Second Street-Capitol complex). At the fourth traffic light, turn right onto Market Street and the hotel entrance is on the left.

Parking - To access the Walnut Street Parking Garage connected to the hotel, travel on Market Street just past the hotel, turn left onto Court Street and follow the signs to enter the garage.

If you're interested in overnight lodging for the Forum

Harrisburg Hilton Hotel

One North Second Street (Market Square), Harrisburg, PA

Single or double rate - $124/night plus tax

The 9th annual PAPERS Forum will begin with breakfast on Thursday, May 23, 2013 and continue through early afternoon on Friday, May 24, 2013. PAPERS has arranged a special room rate for attendees at the Forum who desire overnight lodging on May 22nd and/or 23rd. **The group rate of $124 per night can only be guaranteed if reservations are made on or before April 22, 2013.**

To make room reservations on-line, log onto:
http://www.hilton.com/en/hi/groups/personalized/M/MDTHHHF-PPF-20130522/index.jhtml

To make room reservations by phone, please call Harrisburg Hilton at 717-233-6000 and ask for group code **PPF**.

For more information (driving maps, parking information and hotel details), click on Hilton Harrisburg.

Updated 2/26/2013

An Evolving Monetary Policy

By: Roger A. Early, CPA, CFA, CFP
Delaware Investments Senior Vice President
Co-Chief Investment Officer/Total Return Fixed Income Strategy

Coming out of the so-called Great Recession, highly unusual — indeed, unprecedented — monetary policy has been among the most newsworthy developments.

Here is where the Fed's stated policy measures stand today, as announced in the bank's Dec. 2012 news release:

- An open-ended commitment to buying up to $40 billion in mortgage-backed securities per month.
- An open-ended commitment to buying up to $45 billion in long-term Treasury bonds per month.
- A commitment to holding down interest rates until unemployment reaches 6.5%, so long as inflation isn't projected to go above 2.5% looking ahead two years.

All three of the above tools are important, but the last one represents a notable break with the past.

It's all in the timing

Despite the Fed's communicative stance, investors remain uncertain about its ability to adjust quickly enough when it comes time for tighter policy. It is hard to predict if the Fed will get the timing right; but in the meantime, here are a few of the commonly perceived benefits — as well as the drawbacks — of the Fed's explicitly communicated monetary policy, along with a few thoughts on each.
Starting with drawbacks …

Potential Drawback	Notes
Capital has become too cheap	An abundance of cheap capital raises the possibility that imprudent decisions can be made, as shown in the banking and housing bubbles that preceded the financial crisis of 2007-2009.
Bonds have become mispriced	The Fed's asset purchases have been supportive of bond prices, pushing yields to historical lows. This may potentially create a situation in which bonds become valuable as an income instrument only, with little potential for price appreciation.
The likelihood of inflation is intensified	Despite heightened worries about inflation, price levels have remained relatively tame, reflecting factors that include: (1) stubbornly high unemployment, (2) slack in the manufacturing sector, and (3) weakness in the so-called velocity of money.
The possibility that the explicit thresholds are misinterpreted as actual policy goals	One line of thinking is that the quantitative thresholds for unemployment and inflation could be interpreted as triggers for an immediate increase in short-term rates.
Potential Benefit	**Notes**
The likelihood of inflation is intensified	While the likelihood of inflation is listed above as a potential drawback, it may have a positive connotation as well. For example, inflation allows debtors to repay loans in dollars that are less valuable than those they originally borrowed.
The perception of the Fed as being more communicative	For the most part, the Fed speaks in general terms when discussing its expectations. As such, the central bank rarely gives precise, numerical thresholds when discussing its views on the future path of interest rates. By including such specifics in its December 2012 statement, the Fed has engaged in a higher degree of openness than it has ever pursued.

(continued on page 11)

An Evolving Monetary Policy

(continued from page 10)

Looking at these circumstances, we sympathize with investors who put more emphasis on the drawbacks than they do on possible benefits (which we believe are quite thin by comparison). On the whole, we agree that fixed income assets have become distorted in the wake of monetary policy, and that many bond investors are facing a condition in which more risk is not necessarily being met with more compensation.
As we move into the coming quarters, we believe investors will be well served by keeping a close watch on the monetary policy environment and the related side effects that could influence the risk/reward relationships within their fixed income allocations.

The views expressed represent the Manager's assessment of the market environment as of February 2013, and should not be considered a recommendation to buy, hold, or sell any security, and should not be relied on as research or investment advice. Views are subject to change without notice and may not reflect the manager's current views.

IMPORTANT RISK CONSIDERATIONS

Carefully consider a Fund's investment objectives, risk factors, charges, and expenses before investing. This and other information can be found in the Fund's prospectus and, if available, its summary prospectus, which may be obtained by visiting the delawareinvestments.com or calling 800 523-1918. Investors should read the prospectus and, if available, the summary prospectus carefully before investing.

Investing involves risk, including the possible loss of principal.

Past performance is no guarantee of future results.

Fixed income securities can lose value, and investors can lose principal, as interest rates rise. They also may be affected by economic conditions that hinder an issuer's ability to make interest and principal payments on its debt.

Fixed income securities may also be subject to prepayment risk, the risk that the principal of a fixed income security may be prepaid prior to maturity, potentially forcing the investor to reinvest that money at a lower interest rate.

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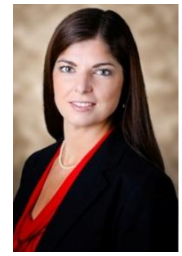
About the author

Roger A. Early, CPA, CFA, CFP

Mr. Early rejoined Delaware Investments in March 2007 as a member of the firm's taxable fixed income portfolio management team, with primary responsibility for portfolio construction and strategic asset allocation. During his previous time at the firm, from 1994 to 2001, he was a senior portfolio manager in the same area, and he left Delaware Investments as head of its U.S. investment grade fixed income group.

Early earned his bachelor's degree in economics from The Wharton School of the University of Pennsylvania and an MBA with concentrations in finance and accounting from the University of Pittsburgh. He is a member of the CFA Society of Philadelphia.

Say-on-Pay Votes: Who Really Does the Talking?



By Alison G. Gushue, Esq., Chimicles & Tikellis LLP

Alison G. Gushue is an associate in the Haverford, Pennsylvania office of Chimicles & Tikellis LLP. Admitted to practice in Pennsylvania and New Jersey, Ms. Gushue's practice is devoted to litigation, with an emphasis on consumer fraud, securities, and derivative cases.

Institutional shareholders have a fiduciary duty to vote their shares on all proxy items, which include "say-on-pay" items. "Say-on-pay" refers to the requirement, imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), that most public companies provide shareholders with the opportunity to cast an advisory vote on executives' compensation. While the outcome of a "say-on-pay" vote does not obligate a company to make changes to its executive compensation programs, negative votes bring increased scrutiny to the company and its governance practices, and have increasingly become associated with shareholder and derivative lawsuits seeking to cause changes in those practices.

Given the implications of shareholders' votes on "say-on-pay" and other corporate proposals, institutional investors typically turn to their investment advisers for insight into whether to vote for or against the proposals. Investment advisers have a fiduciary duty to adopt policies and procedures that are reasonably designed to ensure that the adviser votes proxies in the best interest of its clients.[1] As the number of items requiring attention at proxy time increases in the wake of Dodd-Frank, so too does the burden on shareholders and investment advisers. As a result, many institutional shareholders and investment advisers are turning to a growing industry to help them fulfill their fiduciary obligations: **the proxy advisory firm**.

Institutional investors and investment advisers use proxy advisory firm voting recommendations to varying degrees. Some use them to spot potential issues for further review by their in-house teams, and to enhance their existing proxy review processes. Others rely on them more heavily, as staffing constraints make it difficult to research every director nominee and evaluate the myriad of proposals that are presented for shareholder consideration, including "say on pay" votes.

The recommendations of proxy advisory firms with respect to votes on executive compensation are not only used by investors and advisers, but also by the companies themselves who submit executive compensation plans to shareholders for a vote. According to a recent study conducted by the Conference Board, NASDAQ, and the Rock Center for Corporate Governance at Stanford University, 70% of companies reported that their compensation programs were influenced by guidance received from proxy advisory firms or by the policies of those firms during the 2011 proxy season.[2]

Is this cause for concern? The increasing use of proxy advisory firms has been met with mixed reactions. On one hand, proxy advisory firms provide a useful option for institutional shareholders and investment advisers that might not have the time, resources, or personnel to do the research necessary to fulfill these fiduciary obligations in-house. On the other hand, some groups (including the SEC) have voiced concerns that this trend places increased power and control in the hands of proxy advisory firms without the corresponding accountability for their voting recommendations, as proxy advisory firms currently enjoy an exemption from the proxy solicitation rules.[3] Additional concerns are raised from a conflict of interest perspective when proxy advisory firms provide consulting services to the very same companies for which they issue proxy voting recommendations. For these reasons, an institutional investor engaging a proxy advisory firm should require the advisory firm to disclose any conflicts of interest that may exist. It is important that, with respect to "say-on-pay" voting, institutional investors keep in mind that the interplay among investment advisers, proxy advisory firms, and the companies themselves can make it difficult to determine exactly who is doing the "talking."

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[1] Advisers Act Rule 206(4)-6, Proxy Voting by Investment Advisers, 17 CFR Part 275, available at http://www.sec.gov/rules/final/ia-2106.htm.

[2] Director Notes: The Influence of Proxy Advisory Firm Voting and Recommendations on Say-on-Pay Votes and Executive Compensation Decisions. David F. Larcker, Allan L. McCall, Brian Tayan for The Conference Board, March 2012, available at http://www.conference-board.org /director notes (No. DN-V4N5).

[3] *See generally* SEC Concept Release on the U.S. Proxy System, available at http://www.sec.gov/rules/concept/2010/34-62495.pdf

Emerging Market Economies —
A Structural Reduction of Risk

Posted on February 1, 2013, by: *Alan H. Dorsey, CFA, Managing Director, Head of Investment Strategy and Risk — Juliana Hadas, CFA, Senior Vice President, Investment Strategy and Risk, Neuberger Berman*

(NOTE: This article is a summary of a much longer research paper provided by Neuberger Berman that can be accessed under the library tab of the PAPERS website @ www.pa-pers.org.)

Emerging market economies have experienced many cyclical ups and downs over the years, but today show significant strength on a secular basis, particularly in comparison to debt-laden developed countries.

Here are a few key developments:

- Emerging economies' share of global GDP has grown from 20% to 34% in the past decade and could reach an estimated 40% by 2015, according to the IMF.
- Export-driven growth has enabled emerging economies to substantially increase their foreign exchange reserves, giving them a greater ability to support their currencies in the event of a crisis.
- Growing middle classes with higher disposable incomes are increasingly driving domestic consumption in emerging economies, helping them transition from dependence primarily on exports to developed countries to a more balanced—and self-sufficient—growth equation.
- Robust monetary policies have set emerging market countries on a more stable path. Inflation today is not much higher than in developed economies. Structural inflation is largely driven by wage increases, which helps increase domestic demand.
- Emerging market countries are now in particularly strong fiscal positions—better than many developed market economies—based on factors such as current account balance and general government gross debt.
- Robust local institutions have also improved the fiscal positions of many emerging countries. Sovereign wealth funds, as well as private and public pension funds, are investing heavily in their home regions and have helped form a stable long-term investor base, contributing to a potential reduction in capital market volatility in these countries.

For investors, a key long-term implication of these trends could be a secular reduction in the perceived risk associated with emerging market asset classes. Hard-currency emerging market sovereign debt has generally migrated to investment grade and is trading at a lower risk premium than historically versus high yield. In our view, emerging market equities could follow suit with a one-time shift to lower risk premiums. Currencies may also experience a similar transformation, which would enhance the appeal of investing in local-currency emerging market debt.

Past experience has prompted caution among investors, many of whom remain significantly underweighted in emerging market asset classes. However, it's possible that perceptions will change, moving emerging markets from "alternative" or peripheral assets to core assets in many investors' portfolios, and potentially altering how emerging market public assets are valued. Until that time, we believe investors may have a unique opportunity to increase their emerging market allocations at potentially compelling valuations.

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Emerging Market Economies
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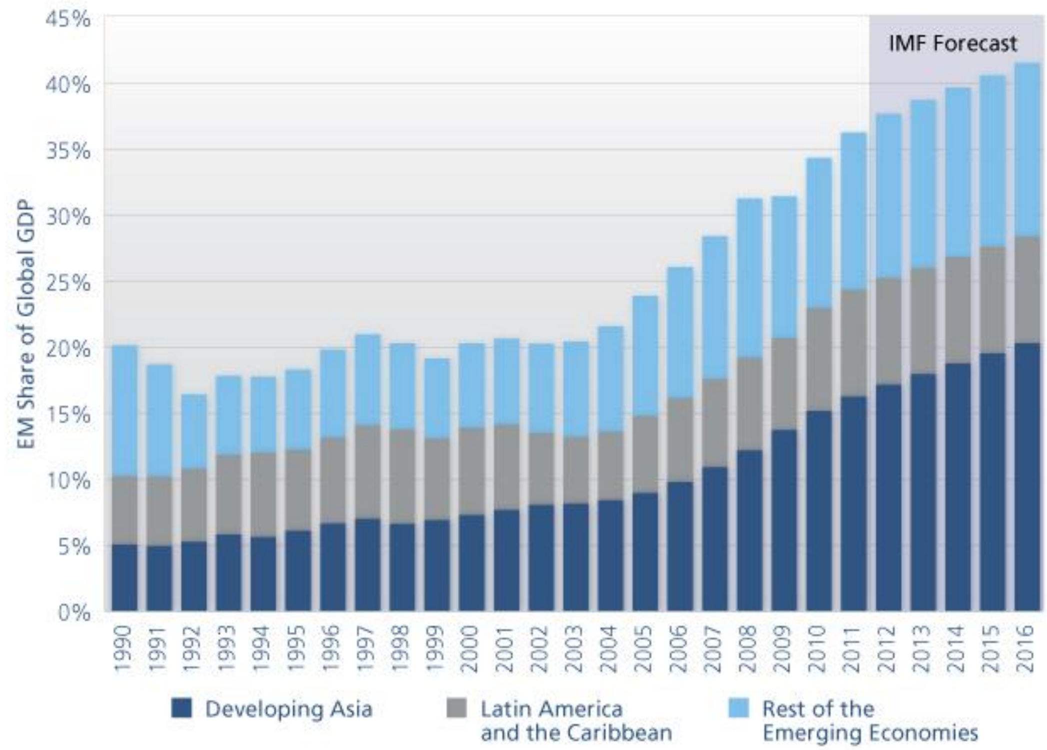
Emerging Economic Strength



Source: IMF World Economic Outlook, Neuberger Berman.

Join us at *The State Museum of Pennsylvania* for a gala reception and tour on May 23, 2013, from 6-8 p.m. PAPERS extends many thanks to Kessler Topaz Meltzer Check, LLP, for sponsoring this event at the 9th PAPERS Forum.

Can We Just Stay Home?

Looking To State Law As A Remedy For Foreign Misconduct

By Andrew D. Abramowitz
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Andrew Abramowitz is a partner of Spector Roseman Kodroff & Willis, P.C., in the firm's domestic and international securities practice. His practice focuses on investor protection issues, including litigation under federal securities law, state law governing fiduciary duties, and ERISA. He is a frequent writer and speaker on matters relating to shareholders' rights and corporate governance.

Ever since the Supreme Court changed the legal landscape with its 2010 decision *Morrison v. National Australia Bank Ltd.*, investors have had plenty to think about. That case essentially held that if you purchased securities on a foreign exchange, those shares were not eligible for participation in a US class action. Rather than limit their investments on foreign exchanges, however, public pension funds began exploring their legal options in overseas forums and asking the next logical question: In which foreign legal systems can we recover against bad actors in instances of fraud or misconduct? And in cases like *Converium/SCOR* – where US and European investors were able to settle claims against a Swiss re-insurance company using Dutch law – US investors did very well.

But what if there is no effective foreign remedy? Are investors simply out of luck? The answer may be no – and recourse may, in fact, be available right here in the US under state law.

Actions involving UK-based oil company BP help illustrate the point. In the wake of the tragic explosion of the Deepwater Horizon in the Gulf of Mexico in April 2010, a number of lawsuits were filed against BP, including a securities case in federal court in Texas. However, the *Morrison* decision compelled the judge in that case to exclude from the class any BP shares purchased outside the US. As no workable options materialized in the UK, large institutional investors – including public pension funds who had suffered significant economic harm as a consequence of their investment in BP – looked for avenues of recovery right here at home. Consequently, they sued under Texas *state* law.

A lawsuit in state court made sense for a variety of reasons. First, while the *Morrison* decision prohibits foreign-bought shares from participating in a US class action brought under the federal securities laws, it does not preclude an investor from suing for the same misdeeds under state law. In other words, a public pension fund that bought BP shares overseas could still sue under the Texas statutes or common law fraud.

Second, because BP has significant operations in the US – specifically, in Texas – and because some of the misconduct at issue is alleged to have occurred in the US, there is at least arguably a sufficient connection to Texas such that the court would allow the claims to proceed, notwithstanding that BP is based in the UK and the plaintiff purchased its shares abroad.

Third, because the securities class action involving US-bought shares is still proceeding in federal court in Texas, that court is already familiar with the facts underlying the case and could more efficiently adjudicate claims brought under state law relating to the same incident.

Finally, because each of the plaintiff institutional investors in the state court actions suffered significant losses, it made economic sense for each to bring its own an individual action. This avoids the class action mechanism, which would automatically implicate the federal securities laws and thus subject the claims to dismissal under *Morrison*.

In sum, while the plaintiffs in the BP state actions still have a ways to go, they are paving the way toward a means of recovery for investors who bought stock overseas but do not have a remedy overseas. In some cases, it may just be easier to stay home.

The 7.5 Percent Solution

Submitted by: Ryan Labs Asset Management

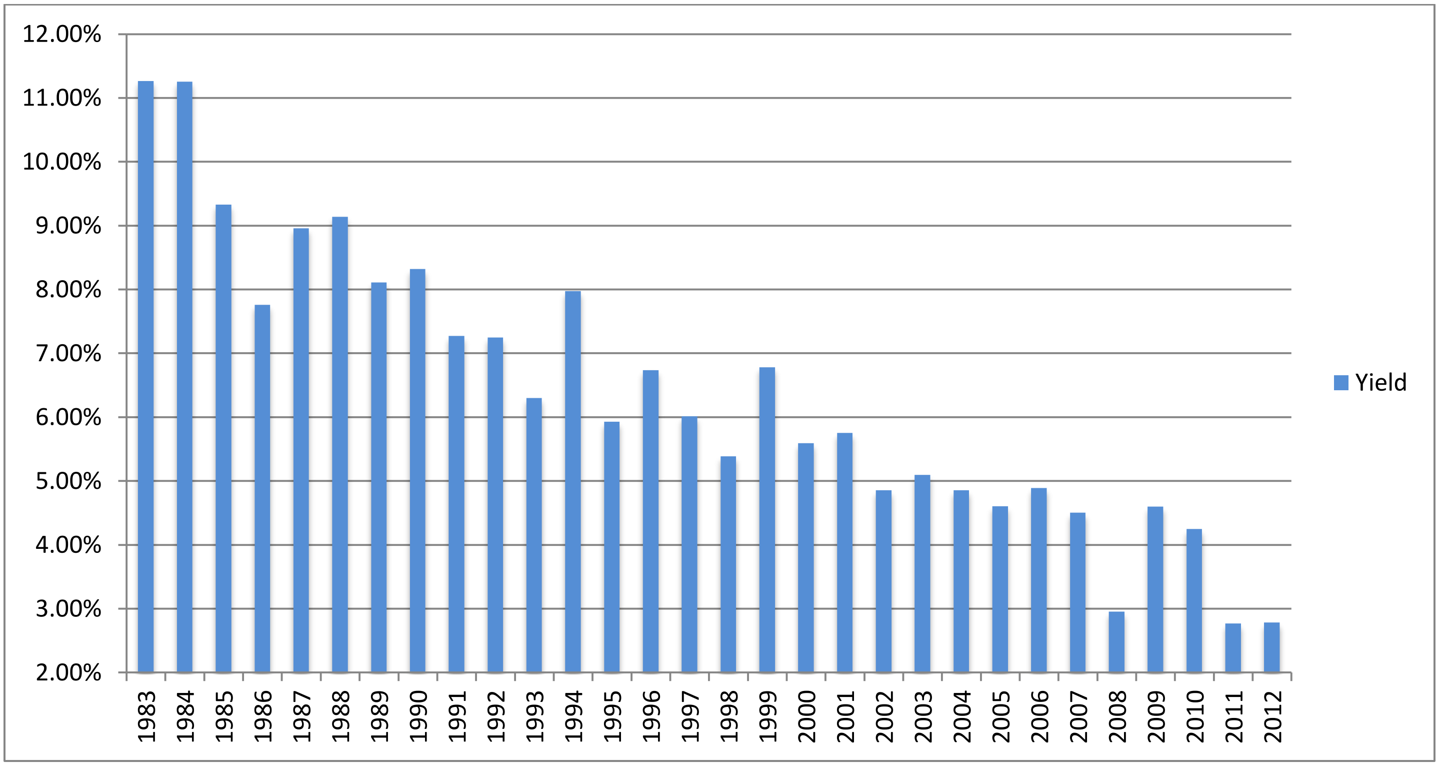
In our last article, we discussed the long-term downward trend in interest rates and how it has dramatically increased the cost of funding pensions. In 1985 you could have funded a $1,000 lump sum benefit payable in 30 years for only $38. At today's interest rates (30-year Treasuries are around 3%), it costs more than 10 times as much --$422 -- to fund that benefit. But, as we noted, many plan professionals will argue that current interest rates only reflect short term conditions. Because pension benefits are long-term liabilities they should be valued using interest rates reflecting long run trends. Taking this approach, public plans can use a "reasonable rate" based on what the plan's portfolio is expected to earn, in the long run. Indeed, most public plans use a 7.5% rate. Problem solved.

Or is it? Use of a relatively high (relative to current rates, that is) interest rate to value plan liabilities and determine funding and investment policy is based in part on the assumption that current interest rates are "abnormally low" and that "long term yields" must go higher. Of course, it is a very safe assumption that interest rates will rise … "sometime." And it's true that, over the last 30 years, the average long-term rate (e.g., 30-year Treasuries) has been around 6.4%. Add another 100 basis points for the (historical) high-quality spread over Treasuries and you achieve this 7.5% assumption.

But just looking back 30 years and taking an average ignores what has really happened with interest rates over the last 30 years. The trend -- over the last 30 years, over the last 10 years and over the last 12 months -- has been for interest rates to go down. The following chart shows long-term interest rates over the last three decades.

Ryan Labs 30 Year Treasury Composite Rate

End of year 1983-2012



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The 7.5 Percent Solution

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The point of actuarial "smoothing" (or any approach that uses average rates) is to smooth out periodic ups and downs, to get at the "real" long run interest rate. But when the trend is all in one direction -- in the case of long term interest rates, down -- then all that averaging does is allow you to ignore the trend and pretend that rates are higher than they actually are.

When you think about it -- and consider the direction of interest rates over the last 30 years -- you have to conclude that using a 7.5% valuation interest rate must be based on a belief that interest rates are going to go up. Is that belief realistic? Consider: the population in the developed world is rapidly aging, creating demand for safe returns and driving down rates; the dollar's status as the world's reserve currency makes it the natural "safe haven" in uncertain times, driving down rates; and developing countries are pursuing aggressive "export driven" monetary policies, undervaluing their own currencies and buying dollars, and driving down rates. Yes, it's reasonable to argue that the Fed has its finger on the scale and is holding rates down. But, long term, it's very unlikely that interest rates will go up dramatically -- say to 7.5%.

So -- at some point, the impact of lower rates on public plan valuations will have to be recognized. That's the first problem with using such a high (and, we believe, unrealistic) rate for plan design, benefit enhancements, contribution policy and investment policy.

The second problem is, as we said in our first article, low rates are a signal: in the "new normal," returns are going to be lower, not just for fixed income securities, but for equities too. When market interest rates are, for instance,around 8.0%, achieving a 7.5% return is relatively straightforward. When the Fed Funds rate is 0.25%, chasing a 7.5% bogey gets significantly more difficult. Plans are forced to take on more and more risk and leverage, increasing the possibility not just that they will come up short but that they will lose big.

The final problem:when it becomes clear that there's not a 7.5% "magic bullet" that will solve the problem of funding retirement benefits in the new environment, and as the risks taken on by plans trying to pull that off mount, there will be changes in regulations.

We're not saying plans should drastically reduce their valuation discount rate all at once. But key decisions that will have real world consequences -- decisions about investment strategy and design -- must reflect real world conditions, not some unrealistic rate you are "allowed to use" because regulatory convention has not caught up.

PAPERS will be recognizing “graduates” of its CPPT (Certified Public Pension Trustee) program at the annual Forum, May 23-24, 2013, in Harrisburg. On the following pages you can review details about this certification program. Please consider enrolling today so you can begin earning CPPT credits when you attend this conference. CPE (Continuing Professional Education) credits can also be earned by attending the PAPERS Forum and/or Fall Workshop.

PAPERS CPPT Program
Certified Public Pension Trustee Program

AN EDUCATIONAL CERTIFICATION OPPORTUNITY FOR PUBLIC PENSION TRUSTEES, PENSION ADMINISTRATORS AND STAFF, AND INDUSTRY PROFESSIONALS

Leadership in Public Pension Education

Program Goals & Objectives

- To provide an educational setting that is conducive to developing well informed public pension trustees, pension administrators and staff, as well as industry professionals who work closely with pension systems.
- To provide an educational setting that enables participants to be actively and meaningfully involved in the management of the pension plans they represent.
- To provide an educational setting to prepare participants to meet the standards their fiduciary role demands upon acceptance to their position involved with a pension system.
- To develop a standard of education and industry competency so that each individual working with the retirement system in their capacity protects the retirement security for the public pension plan beneficiaries in Pennsylvania.

PAPERS

Pennsylvania Association of the Public Employee Retirement Systems
P.O. Box 61543 . Harrisburg, PA 17106-1543
www.pa-pers.org

PAPERS CPPT Program
Certified Public Pension Trustee Program

Course Requirements

Following a core curriculum, the certification program requires participating in 36 hours of course credits over a three year period of time. Course credits can be attained by attending the Spring Forum, the Fall Workshop, PAPERS Online Sessions, or some combination of the three. Participants must successfully pass an exam following each educational offering. Upon course completion, the participant will be awarded the Pennsylvania Certified Public Pension Trustee designation.

- A minimum of 18 hours must be obtained by attending course offerings at the PAPERS Annual Spring Forum.
- Up to 18 hours may be obtained by attending the PAPERS Annual Fall Workshop
- The PAPERS Online Program are meant to supplement missed credits throughout the program. Participants can earn up to 8 credits per year and a maximum of 18 credits through the duration of the CPPT program.

Acquiring Credits

CPPT Participants gain credits by attending the various educational offerings by PAPERS. PAPERS hosts a Spring Forum, a Fall Workshop, and Online Program Sessions. After each educational program participants must successfully pass a certification exam.

Spring Forum - Potential to earn up to 12 credits at a single forum with successful completion of a follow up certification exam

Fall Workshop - Potential to earn up to 10 credits at a single workshop with successful completion of a follow up certification exam

PAPERS Online Program - You can earn a single credit by participating in an online session and successfully completing a follow up certification exam. There will be eight online sessions per year allowing participants to earn up to 8 credits per year. Please note that a participant is limited to earning a maximum of 18 credits through the online program.

Certification Testing

There will be a multiple choice certification exam after each educational offering. Testing is done online and graded on a pass/fail system. A passing grade is defined as 70% correct answers. You must successfully pass the certification exam within two weeks following the educational offering in order to obtain the projected credits for that event.

Curriculum

PAPERS has many relationships with leaders in all facets of the industry who offer their knowledge and expertise. These professionals are well qualified to instruct the PAPERS membership in an educational setting. The PAPERS CPPT Program will cover a well balanced curriculum with a focus on the following areas:

- Asset Allocation & Investment Strategies
- Communications & Media Programs
- Fiduciary & Compliance Standards
- Legal Issues/Board Policies & Practices
- Pension Fundamentals
- Pension Funding & Plan Design
- Public Pension Industry Trends & Issues

Program Cost & Duration

Total CPPT Program - $300
Annual Post-Certification Fee - $30

The program must be completed in a three year time frame. In order to retain the CPPT designation, participants must attend either the Spring Forum and/or the Fall Workshop at least once a year. There is a $30 annual post-certification fee in addition to any conference registration fees.

Program Registration

Please visit the PAPERS website (www.pa-pers.org) and follow instructions provided on the PAPERS CPPT registration form. You may then email or mail the completed form to Sean McKinstry.

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