PAPERS
PENNSYLVANIA ASSOCIATION OF PUBLIC EMPLOYEES RETIREMENT SYSTEMS

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The mission of the Pennsylvania Association of Public Employee Retirement Systems (PAPERS) shall be to encourage and facilitate the education of its membership in all matters related to their duties as fiduciaries overseeing the assets of the pension funds with which they have been entrusted. It will be PAPERS' primary purpose to conduct an annual educational forum that provides the basis for improved financial and operational performance of the public employee retirement systems in the State. PAPERS will function as a central resource for educational purposes and act as a networking agent for all public plan staff and board members.

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In This Issue

PROXY RELATED REGULATORY UPDATE

By Rosemary Kelly

PAPERS Advisory Committee & Vice President, Institution Relations
Broadridge Investor Communication Solutions

PROXY ACCESS

Public companies in the United States are not required to allow shareowner access to a company proxy for purposes of nominating directors. Currently a director nominee can only be challenged if the election is contested, which is difficult and expensive for one shareowner or for a group of shareowners.

Under current Securities and Exchange Commission rules, companies are allowed to exclude shareowner proposals that relate to the election of directors. In 2006 a federal appeals court ruling questioned the SEC position, and as a result in September 2007, the SEC proposed two conflicting proxy access proposals. One proposal allowed companies to exclude proxy access shareowner proposals and the other proposal allowed a shareowner, or group of shareowners, holding 5% of a company's stock for at least one year, to propose changes to the company bylaws stipulating how directors are elected.

On November 28, 2007 the SEC voted in favor of the proposal allowing companies to exclude proxy access shareowner proposals relating to the director elections or board nominations. It is anticipated that the rule will again be challenged in the courts.

NOTICE + ACCESS

On January 22, 2007, the Securities and Exchange Commission amended proxy rules to allow companies to furnish proxy materials to shareowners through the Internet. The amendment became effective on July 1, 2007, and is generally referred to as Notice and Access.

Instead of automatically sending shareowners a complete set of proxy materials by mail (typically consisting of an annual report, proxy statement and voting card), companies may choose instead to mail a "Notice of Internet Availability of Proxy Materials" (Notice). Among other points of information the Notice lists an Internet web site address where shareowners may access proxy materials online (Access). Companies that choose Notice and Access are required to post their materials on a publicly accessible, cookies-free Internet Web site other than the SEC EDGAR web site. The Notice also includes instructions for requesting hard copy proxy materials, either for meetings related to the company listed in a specific Notice or for all meetings for all companies held in the shareowner's brokerage or bank account.

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Proxy Related Regulatory Update

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Companies with a meeting date no earlier than August 12, 2007, were eligible to use the Notice and Access option.

The SEC Notice and Access Rule is voluntary. However as of January 1, 2008, even if a large, accelerated filing company does not choose to use the Notice and Access option, it is mandatory for that large accelerated filer to provide proxy materials at a cookies-free website and to include a Notice of Internet Availability of proxy materials with the proxy material, or to incorporate the Notice of Internet Availability in the proxy statement or on the proxy ballot. Effective January 1, 2009, all companies and mutual funds are required to do so as well.

BROKER DISCRETIONARY VOTING

New York Stock Exchange (NYSE) Rule 452 adopted in 1937 allows brokers to vote 'routine proposals' at their discretion for any customers that have not voted, as long as the required material distribution timeframes have been met. Examples of routine proposals include uncontested election of directors and ratification of auditors.

In June 2006 the NYSE Proxy Working Group submitted a rule change to the SEC which would treat 'election of director' proposals as 'non-routine' matters for NYSE listed companies. If approved by the SEC, brokers would no longer be able to vote the uninstructed shares of their customers. The NYSE proposed an effective date in spring of 2008, but in September 2007, the NYSE notified its members that the proposed rule change would not be approved by the SEC for proxy season 2008. The SEC is still reviewing the matter.

__Rosemary Kelly__ is a Vice President in the Institution Relations Group at Broadridge Investor Communication Solutions (previously ADP Investor Communication Services) with responsibility for developing and maintaining executive level relationships and disseminating corporate governance and industry issues related to the proxy voting process. Rosemary began her association with ADP in 1992 with the acquisition of the Independent Election Corporation of America, where since 1984 she held various management level customer service, sales and account management positions, culminating as Vice President of Client Services; with responsibility for bank, broker, institution, issuer and global client service groups. From 2001 through 2004, Rosemary was a consultant for TPS Administrative Group where she developed and managed their medical claims processing department. During 2004 Rosemary was subject matter expert and Vice President of Member Services for Swingvote, LLC. Rosemary rejoined ADP in 2005 as Vice President, Institution Relations.

From the PAPERS Executive Director

As a new organization the biggest challenge we face is how to reach out to potential members. For PAPERS to grow and develop as an organization we need to attract a critical mass of members to facilitate a good exchange of ideas.

To that end we have developed a short survey printed on Page 5 to help us understand the needs and wants of both current and potential members. I would appreciate it if current Participating and Associate Members reading this newsletter would take the time to respond to each of the 10 questions to tell us why you decided to join. We are planning an outreach effort to non-members to solicit their input on these questions, too.

Please let us know what you like and dislike about PAPERS and the workshops we have sponsored. We would also like to hear any suggestions you have that might help us attract more members or that you think would make PAPERS a better organization. Thank you for your support and we appreciate your feedback.

You may e-mail your responses to me at: perryja1@comcast.net or send them in writing to: PAPERS, PO Box 6817, Harrisburg, PA 17112.

Jim Perry
PAPERS Executive Director

PAPERS Membership Categories

Participating Member - Any public pension plan in the State of Pennsylvania; or public agency, authority, board or commission whose office has significant regulatory supervision, oversight or administrative responsibility for public pension funds in Pennsylvania is eligible to become a Participating Member of PAPERS. The annual Participating Membership Fee is $95.00. Members of the ***PAPERS Board of Directors*** are chosen from among the representatives of Participating Members.

Associate Members - Any public or private corporation, partnership, organization, or individual that regularly conducts business with public pension plans is eligible to become an Associate Member of PAPERS. The annual Associate Membership Fee is $1,000.00. An **Advisory Committee** chosen from among the representatives of Associate Members acts as a liaison between the corporate community and PAPERS.

A current PAPERS membership is required for pension plans or corporations to register any number of persons to attend the annual PAPERS Forum as their representatives. See page 6 of this newsletter for more information about the 2008 annual Forum.

ACHIEVING CORPORATE GOVERNANCE REFORM THROUGH DERIVATIVE LITIGATION

By Andrew D. Abramowitz (PAPERS Advisory Committee & Spector, Roseman & Kodroff, P.C.)

We have all seen what happens when there is a failure on the part of a corporation to have in place strong, functioning corporate governance mechanisms. The sad, economically disastrous consequences of such failures are well documented in the episodes of greed and fraud known as Enron, WorldCom, Tyco, Parmalat, and dozens of others since the beginning of the millennium.

While it may be true that corporate boards have, to some extent, been reined in by high profile scandals, instances of director misconduct are still abundant, and shareholders must continue to take steps – through proxy voting, informal persuasion, and any other means – to ensure that companies adopt governance enhancements.

When other measures fail, shareholder derivative litigation is a useful tool for investors. The derivative suit is where a shareholder brings a case on behalf of the company against the individuals (typically, members of the board of directors) whose wrongdoing has subjected the company to economic harm. Such suits often allege that the directors and officers breached their fiduciary duties of care and loyalty with respect to the company, and any monetary recovery obtained goes to the company, not to the individual shareholders.

Derivative litigation has been a powerful instrument for forcing governance reforms upon boards under whichillicit conduct has been permitted to fester. For example, settlement in such cases has resulted in significant overhauls to corporate governance schemes, including: (a) the strengthening of director independence standards and adjustments to the composition of the board; (b) the implementation of governance and regulatory oversight committees; (c) requiring the audit committee to have a majority composition of outside directors; (d) the establishment of a well funded plan for educational seminars for directors; (e) the imposition of restrictions on the company's ability to diversify from its core business; (f) the establishment of guidelines for executive compensation; and (g) the expansion of shareholder rights, which include control over the nomination and removal of officers and the ability to call meetings.

A recent high profile derivative suit involved the Walt Disney Company – specifically, the enormous amount of money paid to Michael Ovitz in connection with his hiring in 1995 and firing in 1996. While the Delaware Supreme Court held that the Disney board did not breach its fiduciary duties or commit waste in that transaction, and considered the Ovitz employment deal as a valid exercise of business judgment, the Court recognized an element of unfairness in judging director conduct that took place ten years ago through a lens that has significantly evolved over the years. This suggests that things could be different if the same conduct took place in today's environment of heightened sensitivity toward corporate governance issues.

Become a Member of PAPERS

Participating Members (public employee retirement systems) and Associate Members (corporate sponsors) can apply online at **www.pa-pers.org** or contact:

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A 2008 PAPERS membership will be required before registration can be completed for the annual spring Forum.

Free Service Available to PAPERS Members

PAPERS Participating Members (retirement systems and fund administrators) can get one-year free access to *Public Pensions Online*.

This is yet another important reason to become a PAPERS member. You may simply go to www.publicpensionsonline.com/member/papers.html and fill out the requested information (name, email, retirement board, etc.). Once the application is submitted, an account will be activated and you will receive an email with your personal login information.

Inflation Protection through Real Assets Investments

By Stacey L. Marino, CFA CAIA; Senior Portfolio Manager, Global Asset Allocation

Gold has historically served as a safe investment during turbulent economic times, and today is no different as demand for the commodity recently pushed the price per ounce past $900 for the first time. But there are more sophisticated investment strategies for inflation-hedging investors these days than stashing bullion in a vault, including investing in broad classes of “real” assets.

In an environment characterized by rising inflation, declining interest rates, and volatile financial markets, some investors are looking for strategies that can deliver positive returns under these unfavorable conditions. Considered non-traditional by investors, real assets are the opposite of stocks and bonds — they are tangible physical things. But the strategies used by investors may take a broader approach, investing in bonds that are inflation-linked and in stocks of companies involved in commodities or natural resources, among others. Blending real assets, is one investment strategy tailored for capturing higher risk-adjusted returns, lower volatility, additional income and positive returns over inflation in otherwise lukewarm markets.

Even uttering the word “inflation” can send securities markets in all directions. So how do investment managers create returns when stocks are volatile and bonds are yielding historically-low returns? By investing in assets that are either driving inflation, (such as oil), or in areas typically safe during turbulent economic times (gold). These real assets have historically outperformed stocks and bonds during periods of accelerating inflation and provided additional diversification benefits for investors seeking to control portfolio volatility, according to research and analysis.

What Are Real Assets?

Real assets are tangible assets that are the building blocks of consumable and production goods. Real assets are intrinsically valuable because of their utility. Each investment class represented in the broad category of real assets offers investors potential incremental returns, both in terms of price appreciation and income generation features.

Real Assets	Examples
Inflation Linked Bonds	TIPS, Linkers, OATs
Real Estate	Direct, Equity REITS, Mortgage REITS, Hybrid REIT
Commodities	Oil, Gold, Copper, Soybeans, Cattle
Global Natural Resource Stocks	Oil & Gas, Energy & Equipment Services, Metal & Mining, Paper & Forest Products
Precious Metals	Gold, Silver, Platinum
Renewable Resources	Forest and Forest Products, Water, Solar and Wind Power
Collectables	Artwork, Coins, Cars

While investors may not have easy access to all real asset categories shown in the table above, there are readily available investment vehicles within the first four categories. Investors seeking to build a real assets allocation may include the following components:

Inflation-Linked Bonds such as US Treasury Inflation Protected Securities (“TIPS”) provide direct exposure to the US Treasury inflation-protected securities market. The dollar payments on these securities are adjusted according to actual inflation over the life of the bonds. Global inflation-linked securities are now also available to investors. For investors seeking to complement inflation protection with risk diversification, a combination of TIPS and other real asset classes can further improve a portfolio’s overall risk-adjusted return profile by generating positive real returns with an overall portfolio risk similar to that of longer-dated TIPS.

Real Estate Investment Trusts (“REITS”) can provide broad exposure to the commercial real estate market. There are a variety of REITs that specialize in office, apartment, retail and industrial properties. REITS must pay out 90% of their taxable income to their investors through dividends, which provides a regular income stream. Furthermore, property values and rents tend to increase during inflationary periods, which in turn causes the value of REITS to increase.

Commodities are raw perishable goods or basic production materials, such as agriculture, industrial metals, precious metals, oil and livestock. Commodity prices generally respond quickly to economy-wide shocks and are widely recognized as leading

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Inflation Protection through Real Assets Investments *(Continued from Page 4)*

indicators of future inflation as they respond quickly to changes in economic conditions. Commodities index futures on the major commodities can be a convenient and efficient way for investors to capture broad exposure to the global commodities market.

Global Natural Resource Stocks
Global natural resource stocks represent ownership in manufacturers and distributors of natural resources such as oil and gas, energy equipment and services, metal and mining, and paper and forest products. When global demand for natural resources grows, the increase in the underlying commodity prices generate higher profits for these companies and translate into higher returns for investors.

Real Assets and Inflation

Stocks and bonds traditionally generate meager returns in periods of stable or rising inflation, according to research by Ibbotson Associates. Macroeconomic factors present during inflationary periods create a backdrop for positive returns for real assets whose intrinsic value increases when prices are rising or expectations of rising prices exist in the economy. These asset classes tend to demonstrate a direct relationship to expected inflation and unanticipated inflation. Additionally, when market returns are expected to be modest, TIPS, REITs, and natural resource stocks, provide a high level of current income.

For plan sponsors the future benefits of investing in real assets may include attractive risk- adjusted returns, low volatility, and low correlation with other traditional asset classes based on historical trends and measured with index returns for the asset classes, according to FactSet data and SSgA analysis.

PAPERS is seeking input to improve and expand the work of the organization. Readers are encouraged to e-mail responses to the questions below to : perryja1@comcast.net or send them in writing to: PAPERS, PO Box 6817, Harrisburg, PA 17112. (See the Executive Director's column on page 2 for more details.)

PAPERS Survey – Seeking To Serve Pennsylvania's Public Pension Funds

1. **What area in your Pension Fund work requires most of your time?**
2. **Are there areas of pension fund administration that concern you?**
3. **Do you feel like you understand the technical parts of your pension fund?**
4. **What sources of information do you use to educate your pension trustees and staff?**
5. **What type of educational programs do you prefer? Lecture? Round table? Other formats?**
6. **What topics would interest you enough to make you want to attend a day and a half seminar?**
7. **Have you recently attended any conferences or seminars that pertain to pension fund administration?**
8. **Have you ever heard of PAPERS?**
9. **Have you ever attended a PAPERS event or read the newsletter? If yes, any feedback on these?**
10. **What could PAPERS do to be of more service to you and your pension fund?**

Pennsylvania Association of Public Employee Retirement Systems

4th Annual Forum

June 4-6, 2008
Hilton Hotel
Downtown Harrisburg, PA

The annual PAPERS forum is the most important conference for public pension plans in Pennsylvania. The conference is organized as the annual gathering of members of the Pennsylvania Association for Public Employee Retirement Systems (PAPERS). ***Please note the change of date for the Forum from that originally announced.*** Given the importance of this year's elections, the change was necessary to avoid conflict with Pennsylvania's Primary Election Day on April 22nd.

The pre-conference workshop designed especially for trustees will be held Wednesday afternoon, June 4th. Forum registration for all attendees begins later that day in anticipation of the Forum's official opening with breakfast on Thursday morning. The agenda continues through lunch on Friday.

This year's program will focus on pertinent pension issues such as:

- funding levels
- asset/liability management
- actuarial assumptions
- fiduciary responsibility and liability standards
- uniformity of retirement benefits across varying systems
- investment management analysis
- asset allocation decisions
- the role of the consultant and money manager
- prudent investing policy and guidelines
- fee management
- auditing controls.

The conference also serves as the annual meeting for the PAPERS organization. A highlight of last year's program was Ron Ryan's (Ryan ALM) opening presentation, which provoked much discussion and controversy over his proposed focus on liability management. The fourth annual Papers Forum will follow up on that discussion with a debate between plan representatives and Mr. Ryan.

The Forum is once again being produced by IMN (Information Management Network). Details will be sent soon to all PAPERS' Participating and Associate Members. A valid 2008 PAPERS membership is required for all organizations participating in the annual Forum. Any number of representatives from your pension fund or service provider may attend the Forum upon payment of the annual dues and a per registrant conference fee.

For advance information, contact:

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