PAPERS

Pennsylvania Association of Public Employee Retirement Systems
PO Box 61543, Harrisburg, PA 17106-1543

Summer 2010 (Vol. 5, No. 2)

In This Issue

PAPERS 4th Annual Fall Workshop

Thurs., Sept. 23, 2010

The Desmond Great Valley Hotel & Conference Center
One Liberty Blvd.
Malvern, PA 19355

Registration starts at 7:00 a.m.
Workshops begin at 8:20 a.m.

Agenda on Pages 5-6

FREE Registration for Pension Fund Trustees & Staff

Registration Form on Page 30
(deadline 9/1/2010)

Interested in Overnight Lodging at The Desmond?

Rate $144/single, $159/double

For Reservations
Call: 1-800-575-1776 or

E-mail:
reservations@desmondgv.com

Room Reservation Deadline: 8/23/2010

"Leadership in Trustee Education"

New Pension Certification Program

Public sector pension plans date back to the late 1800's and today these plans are under attack. Now is the time that every public pension system, not only in Pennsylvania but across the United States, needs to prepare for a full political and financial attack. In most cases, the attack has already begun through the media outlets, primarily as a result of the 2008 market crash. Annual state and local budgets need a culprit to blame during this trying time and pension plan benefits along with healthcare benefits are topping the list. With the public pension industry under siege, it is time for everyone involved to step up and educate each other so that long term retirement security may be preserved.

PAPERS is proud to announce that it is stepping up to today's challenges and has developed its own "Trustee Certification Program". PAPERS has reached out to the Florida Public Pension Trustee Association (FPPTA), our equivalent organization in Florida, to assist our organization with providing a "Certified Public Pension Trustee (CPPT)" certification program with a curriculum that focuses on every aspect of the public pension industry. The FPPTA has been providing this nationally recognized certification program to its members for the last twelve years and PAPERS is pleased to be working with FPPTA to establish a similar CPPT program in Pennsylvania. This educational program will better equip and educate the public pension systems and industry professionals across the Commonwealth of Pennsylvania.

Although labeled a "trustee" certification program, this designation is applicable to pension system administrators and staff along with the industry professionals who are so much a part of the public pension industry. Everyone involved with a public pension system MUST always remember that the plans they represent or work with have a promise to fulfill *… a promise to millions of public workers to provide a guaranteed pension benefit after a career in public service*.

PAPERS is pleased to unveil its newly designed Certification Program to its membership. The first course offerings will be available to anyone attending the upcoming **PAPERS Fall Workshop scheduled for September 23rd at The Desmond Great Valley Hotel & Conference Center in Malvern, Pennsylvania. As an added incentive, pension fund trustees/staff will receive free registration for the Workshop.**

For more details about the PAPERS Certified Public Pension Trustee program, turn inside to pages 3-4.

From PAPERS' Executive Director

I continue to see article after article advocating the dismantling of public pension funds across the country. My observations are that for the most part Pennsylvania's local pension plans have done a good job of maintaining the funded status of their plans in spite of the blows being delivered by the markets over the last couple years.

Education is an important tool for trustees to use to enable them to continue to maintain the integrity of the pensions they manage. The PAPERS Board feels it is especially important for pension fund trustees and staff to have access to high quality training to help them with their duties. In recognition of the severe budget constraints that most local governments are facing, the PAPERS Board is offering **complimentary registration** for the Fall Workshop to all public pension trustees and staff.

This summer PAPERS staff and Board are working hard on the production of our 4th annual Fall Workshop which will be held on September 23rd at The Desmond Great Valley Hotel & Conference Center in Malvern, PA. The PAPERS Fall Workshop provides an opportunity for you to participate in an excellent series of educational workshops. In addition it gives you a chance to meet with your plan sponsor peers and with professionals who provide consulting, investment, actuarial and legal services to the pension community. Best of all, there is **no cost** for any public pension trustee or staff member who wishes to attend this one day educational event. To qualify you must submit a registration form so that we will be able to plan for the proper number of attendees.

We have put together an agenda that addresses some of the basic skills trustees must master to fulfill their fiduciary duty to the members of their Plan. Please see pages 5-6 for the details of this year's agenda.

The success of the Fall Workshop and of PAPERS as an organization is dependent on your participation and support. I look forward to seeing you at the PAPERS fall workshop on September 23rd. You'll find the Workshop reservation form waiting for you to complete on page 30.

***Jim Perry*, PAPERS Executive Director**

Special Thanks to our Fall Workshop Sponsors

The generous financial support of these PAPERS corporate (Associate & Affiliate) members makes it possible to provide free registration for representatives of public pension funds to attend the Fall Workshop.

- **Barroway Topaz Kessler Meltzer & Check, LLP**
  180 King of Prussia Road
  Radnor, PA 19087
- **BNY Mellon**
  BNY Mellon Center
  201 Washington Street
  Boston, MA 02108
- **Federated Investors**
  1101 Liberty Avenue
  Pittsburgh, PA 15222
- **Foster & Foster, Inc.**
  6290 Corporate Court C-201
  Fort Myers, Fl 33919
- **Intercontinental Capital Management**
  1270 Soldiers Field Road
  Boston, MA 02135
- **Lord, Abbett & Co.**
  90 Hudson Street, 6th Floor
  Jersey City, NJ 07302
- **Schroder Investment Management**
  875 Third Ave, 22nd Floor
  New York, NY 10022

Become a Member of PAPERS

Public employee retirement systems (pension funds) can apply to become Participating Members and 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

Additional Information related to article on Page 1

The PAPERS CPPT* Program Goals and Objectives

*(*Certified Public Pension Trustee)*

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

In establishing a certification program for its members, PAPERS will be offering this newly formalized program on two levels. The first level begins with PAPERS' Fall Workshop in September 2010 and the second level will begin in 2011 at the annual PAPERS Forum.

The administrator of the PAPERS CPPT program will be Mr. Peter Hapgood. Mr. Hapgood of Sturbridge, MA, founded Public Pensions Incorporated (PPI), a public pension consulting firm that specializes in providing educational resources and services to public pension systems, organizations and related industry firms and professionals in 2003. PPI handles all of the trustee education programs for the Florida Public Pension Trustees Association (FPPTA).

PAPERS Certificate Program (Level 1)

The first level will be the "PAPERS Certificate Program". Level 1 will be offered for FREE and everyone who has registered to participate in the program will be given a certificate upon completion.

1. The certificate program **(Level 1)** will consist of 12 total hours of specialized public pension industry education.
2. Participants will have the opportunity to register for Level 1 at the PAPERS Fall Workshop on September 23, 2010.
3. Attendance at all sessions of the PAPERS Fall Workshop will provide 6 hours of education toward earning the Certificate.
4. PAPERS will offer the additional 6 hours for program completion via its newly established "Online Training Network" from November 2010 to April 2011. A schedule for online courses will be provided at the Fall Workshop.
5. If you prefer NOT to participate with the PAPERS Online Training Network, the additional (6) course hours for your PAPERS Certificate Program will be offered at next year's Annual Forum (spring 2011).
6. Once registered, the participant has **one year** to complete the Certificate Program.
7. Completion of the PAPERS Certificate Program will require obtaining 12 hours of training, a combination of hours from attending the Fall Workshop along with participating in either the PAPERS Online Training or the spring 2011 Forum.
8. After you have successfully completed the Certificate Program, you will be eligible to participate in the PAPERS CPPT Program's next cycle of course offerings. Completion of the Certificate Program is a pre-requisite to participate in the Level 2 Certification Program.

See page 4 for details about Level 2 of the PAPERS CPPT Program.

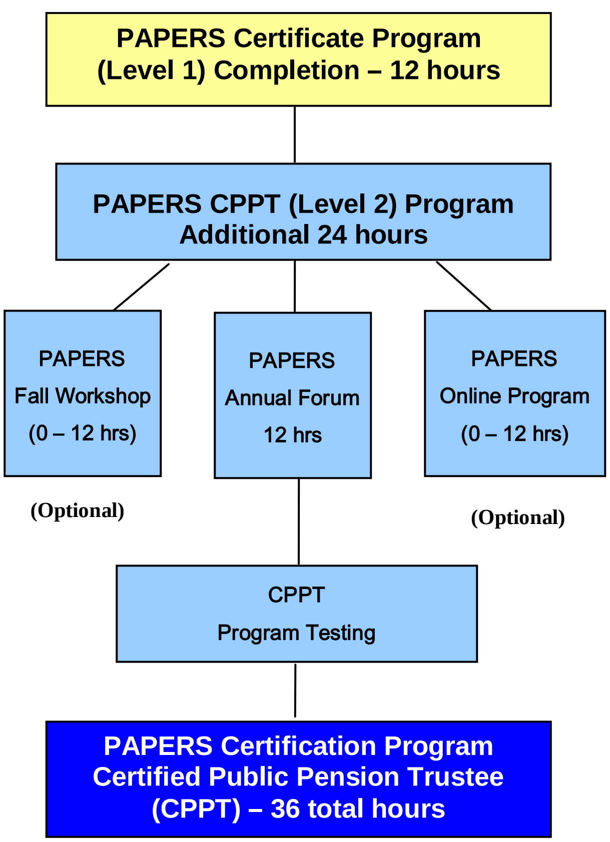
PAPERS Certification Program (Level 2)

Level 2 of the PAPERS CPPT Program will consist of a curriculum of an additional 24 hours.   Level 1 (the PAPERS Certificate Program) MUST be completed first.

To achieve the CPPT designation, the participant will complete the course of study as diagrammed below. One-half of the required hours must be obtained by attending 12 hours at the annual PAPERS Forum. The remaining 12 hours can be obtained through the PAPERS Online Training Network and/or by attending PAPERS Fall Workshops.

The first PAPERS Level 2 CPPT Program will start at the organization's 2011 Annual Forum. Level 2 will be more comprehensive and participants will have to pass a competency test to receive their PAPERS CPPT certification. More details, including any fees for Level 2, will be available at the September 2010 Workshop.

PAPERS CPPT Program (Level 2)
(Starting in 2011)



PAPERS FALL WORKSHOP AGENDA

Thursday, September 23, 2010

7:00 a.m. – 4:30 p.m.

The Desmond Great Valley Hotel & Conference Center
Malvern, Pennsylvania

7:00 a.m.–8:15 a.m. .... **Registration and Continental Breakfast**

8:20 a.m.-8:30 a.m. .... **Welcome to the PAPERS Fall Workshop**

Jim Perry, Executive Director PAPERS

Recognition of 2010 Fall Workshop Sponsors

- ***Barroway Topaz Kessler Meltzer & Check, LLP***
- ***BNY Mellon***
- ***Federated Investors***
- ***Foster & Foster, Inc.***
- ***Intercontinental Capital Management***
- ***Lord, Abbett & Co.***
- ***Schroder Investment Management***

8:30 a.m.-9:15 a.m. .... **Keynote Speaker – Zane Brown**
Partner and Fixed Income Strategist - Lord Abbett

Zane will give his views on the economy and the influence the Federal Reserve has on the whole process**.**

9:15 a.m.-10:15 a.m. .... **Trustee Panel - Investment Policies & Asset Allocation**

Moderator: Rick Courtney, *RBC Wealth Management Consultant*

Panelists: Mark Rupsis, *Chester County*
Vic Mazziotti, *Northampton County*

The panelists will discuss Investment Policies at their Plans and how they were developed and implemented. They will also discuss asset allocation and how it is manaqed at their plans.

10:15 a.m.-10:30 a.m. ...... **Refreshment Break**

10:30 a.m.- 1:30 p.m. .... **The Role of your Advisors in Developing a Written Investment Policy for your Pension Plan**

Consultant: Joe Bogdahn, *The Bogdahn Group*
Actuary: Brad Heinrich, *Foster & Foster Consulting Actuaries*
Investment Manager: Joseph Veranth, *Dana Investment Management*

The panelists will discuss their roles in helping plan sponsors develop and implement an investment policy that is appropriate for the plan.

(continued on page 6)

(continued from page 5)

11:30 am-12:30 pm.......... Establishing an Asset Allocation from your Investment Policy Statement

Moderator: **Michael Shone, *Pierce-Park***
Presenters: **Craig Ebersole, *Lancaster County***
Ed Cernic, *Cambria County*
Bill Hoffman, *Allentown*

This panel will explore asset allocation from a Policy Statement perspective. They will share their personal experiences with establishing and implementing the allocations for their plans.

12:30 p.m.-1:15 p.m.........Lunch

1:15 p.m. - 2:00 p.m.........Manager Selection Panel

Moderator: **James Allen, *PA Municipal Retirement System***
Consultant: **Christopher Rowlins, *Fiduciary Investment Advisors, LLC***
Investment Manager: **Leon Palandjian, *Intercontinental Capital Management***

These presenters will discuss the basics of manager selection. They discuss the key factors to consider when interviewing potential asset management firms.

2:00 p.m.-2:15 p.m..........Refreshment Break

2:15 p.m.-3:00 p.m..........Opportunities in Domestic Equities

Presenter: **Fred Schaefer, *Schroder Investment Management***

Fred will present an overview of the equity asset class and highlight the potential returns and risks associated with the various sectors of this asset class.

3:00 p.m.-3:45 p.m..........Fixed Income Options in Today's Economy

Presenter: **John Milne, *JK Milne Asset Management***

The presenter will discuss opportunities available in the Fixed Income asset class to help plan sponsors satisfy their fixed income allocations. He will discuss some of the risks and rewards inherent in various products.

3:45 p.m.–4:30 p.m.........Closing Remarks
Pension Legislation in the Commonwealth

CPE (Continuing Professional Education) Credits

Attendance at all sessions of the Fall Workshop will earn 6 CPE credits. An attendance record form will be available at the Workshop for participants to submit, certifying their attendance.

Trustee Certificate/Certification Designation

PAPERS will begin its brand new CPPT (Certified Public Pension Trustee) designation at this Workshop. The first phase of the designation – *the Certificate phase* – requires 12 credit hours for completion. Participants can earn 6 of those hours at this conference and the balance either on-line or at upcoming PAPERS conferences. The second phase of CPPT – *Certification* – requiring an additional 24 credit hours for a total of 36, will be introduced at the Fall Workshop.

Annual Board Self Assessments are Becoming Best Practice

By: Kathleen S. Smith
Chairman, Principal and Chief Compliance Officer
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, 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 IPO Plus Fund (symbol: IPOSX), the first mutual fund to focus solely on investing in IPOs, and through separately managed institutional accounts.

PAPERS' Spring 2010 Forum Follow Up
We attended the PAPERS Spring Forum for the first time this year and were impressed by the agenda that Jim and Doug put together for the event. We were excited to get to know the managers and trustees of Pennsylvania's pension plans and enjoyed interacting with members of the audience at our booth. I am particularly excited about my new role as a member of PAPERS' Corporate Advisory Committee and look forward to sharing my experiences and knowledge about corporate governance issues.

Corporate Governance is Important
As Chief Compliance Officer and Chairman of the Board of Renaissance Capital's SEC-registered 40-Act Funds, I understand the responsibilities of the fiduciary in a highly regulated setting. Also, in our role as research analysts and investors in newly public companies, our Firm studies corporate governance practices carefully to be sure that the interests of management and the Board of these new companies are aligned with public shareholders. I am also a member of the Board and Governance Committee of the Greenwich Family Y where I have been exposed to the governance standards of non-profit organizations. I want to share with you the trends I see unfolding and the best practices being implemented by the public and private sectors.

Annual Board Self-Assessments are Becoming Best Practice
Since 2006, all SEC registered 40-Act mutual fund companies such as ours have been required by the SEC to conduct an annual board self-assessment. In addition to mutual fund companies, an increasing number of public and non-profit Boards are implementing annual board self-assessments. These self-assessments provide an important opportunity to formally review whether the Board as a whole as well as the Trustees individually are meeting their fiduciary responsibilities and adding value on behalf of the constituents they represent.

Annual Board Self-Assessments will Benefit Plan Sponsor Trustees
We expect that the annual board self-assessment will inevitably become a part of public pension plan governance. As Trustees are becoming legally accountable for their role as fiduciaries, an annual board self-assessment has the benefit of providing strong documented evidence of fiduciary care. While self assessments should be tailored to the specific fiduciary issues of each Board, we share with you some areas of consideration that you may find useful in preparing for a review.

(continued on page 8)

(continued from page 7)

ANNUAL BOARD SELF-ASSESEMENT CONSIDERATIONS

THE BOARD

1. **Board Composition** e.g. appropriateness of size, disinterested vs. interested directors, diversity, active vs. retired, experience, continuing education.
2. **Board Meetings** e.g. adequacy, frequency, attendance, agendas, materials, advance review time, response to issues, evaluation time, Chairman role, communication among board members, service provider issues, counsel input, executive sessions.
3. **Board Policies** e.g. policies and procedures followed, nomination process, compensation review, investments by board members, access to counsel.
4. **Committee Composition** e.g. appropriateness of number, membership, clearly defined roles, charter review, structured around strategic issues.
5. **Board Performance** e.g. attendance, constituent consideration, management performance review, service provider review, involvement in management oversight, systems adequacy, long-term policy issues, risk assessment, critical dialogue, evaluation of members, independence from management, compliance review, conflict of interest policy, understanding of results, key contract review process, confidentiality process.

INDIVIDUAL TRUSTEES

In implementing an annual Board self assessment, individual Trustees should be prepared to review their contribution to the Board. Here is our recommended checklist:

- **Attend all Board and Committee meetings:** Make sure your attendance is recorded.
- **Come prepared:** Review all meeting materials ahead of time and save them in a confidential file.
- **Participate constructively:** Ask questions in your role as fiduciary representing your constituents and review the minutes for accuracy of your comments.
- **Attend continuing education seminars:** Obtain and submit certifications to receive continuing education credits.
- **Disclose & remove any conflicts of interest:** Submit annual updates of all paid positions and outside interests, including other directorships.
- **Stay abreast of issues and trends:** Attend conferences and maintain records of your attendance.

The case for long/short equity strategies

A position paper (f*ourth quarter 2009)* by:

- **Matt Glaser**, director of alternative strategies;
- **David Honold**, portfolio manager/security analyst;
- **Chris McHugh**, senior portfolio manager/security analyst;
- **Jason Schrotberger**, portfolio manager/security analyst;
- **Vijay Shankaran**, portfolio manager/security analyst;
- **Frank Sustersic**, senior portfolio manager/security analyst; and
- **Bob Turner**, chairman and chief investment officer

Our position in brief

We think long/short equity strategies should be an integral part of institutional and individual investors' diversified portfolios for two reasons. One, long/short equity strategies can produce equity-like returns over time, with a lower level of volatility than that of long-only funds and the stock market. Two, they can provide diversification and deliver downside protection to bolster investors' resolve to stay invested in stocks throughout a full market cycle.

Large institutions have the ability to gain exposure to long/short strategies through separately managed accounts, which often provide structural advantages. Smaller institutions have mainly used limited partnerships to gain access to long/short investments. As more investment managers offer long/short mutual funds, we believe that all types of investors (including small institutions) will have the ability to benefit from the various advantages offered by long/short equity strategies.

Much has been written about the generally disappointing performance of hedge funds in the bear market of 2008. Even so, when investment history is written, the performance of hedge funds in 2008 may end up being viewed in more favorable terms.

While most hedge funds in the 2008 bear market came up short in producing positive returns (or "absolute returns," in the industry vernacular), they still fared much better than the major market indexes. In 2008 the average hedge fund (including all types of hedge funds) was down 19%, according to Credit Suisse, while the S&P 500 Index lost roughly 37%. For the two-year period ended September 30, 2009, the S&P 500 Index was down approximately 15% annualized, versus the HFRI Equity Hedge

Index long/short equity category's 5% loss. In the final phase of the bear market in 2009, from January 1 to March 9, the Credit Suisse Long/Short Index lost 1.5%, compared with the much-sharper 24.6% loss of the S&P 500 Index.

So, as we will show in greater detail later in this paper, long/short equity strategies dramatically outperformed the broader market during the recent downturn and over the long term.

An avoidable outcry

It's our belief that many long/short equity funds that were marketed only as absolute-return vehicles created false expectations among investors. Had they instead been marketed as seeking to provide equity-like returns with lower volatility, there would likely have been far less of an outcry about performance.

On top of the performance issue, the hedge-fund industry has been sullied by several much-publicized scandals -- most notably, Bernard Madoff's $65-billion fraud and the recent insider-trading indictments against the Galleon Group.

(continued on page 10)

(continued from page 9)

Not surprisingly, on the heels of the Madoff affair, investors stampeded out of hedge funds in 2008 and early 2009 (or, to be precise, many investors who were actually *able* to pull their money out did so; some hedge funds barred investor redemptions last year by enforcing “gates”). In the 12 months ended June 30, 2009, investors withdrew $330 billion from hedge funds, which at their height of popularity in 2008 had about $1.8 trillion in assets under management, according to *The New York Times*. As a consequence of their poor performance, about 16% of all hedge funds went out of business last year, according to Hedge Fund Research, a firm that monitors the industry. However, despite all the negative issues, in recent months the industry appears to be stabilizing, especially with regard to net investment flows.

Building wealth efficiently

All the negative issues notwithstanding, we believe long/short equity strategies can offer an efficient means of building investment wealth -- even if not all of them can deliver positive returns all of the time. We believe they can deliver downside protection in bear markets and the potential to provide superior relative results over the long term. Long/short strategies essentially can lower the volatility of the equity component of an institution’s asset-allocation model. We believe long/short mutual funds can be of particular benefit to investors’ diversified portfolios, including institutional defined-contribution plans.

As such, long/short equity strategies deserve an increasingly prominent role in investors’ asset-allocations, in our judgment. We think long/short equity strategies -- and specifically, long/short equity mutual funds -- may gain prominence in the years ahead because they can provide equity-like returns, along with these characteristics:

- lower volatility;
- downside protection and diversification in bear markets;

and, specific to mutual funds:

- lower investment fees/expenses versus limited partnerships; and
- liquidity and transparency.

As 2008 showed, most long/short strategies failed to produce positive returns in all market conditions. But the record also clearly showed that they tend to be good at limiting losses in down markets and producing relatively low-volatility returns that can pay off in solid outperformance over time.

Higher, less volatile results

Over the last 10 years ended September 30, 2009, the Credit Suisse Long/Short Equity Index generated an annualized return of 8.01%, with an annualized volatility of 9.96%, compared with the Russell 3000 Index’s annualized return of just 0.73% and an annualized volatility of 16.57%. (Of course, it should be noted that the past 10 years were an unusually weak period for stocks, and the next 10 years may bring markedly better results. Past performance is not a guarantee of future results.)

In terms of down-market performance, the table below highlights the performance of long/short equity funds during the 10 worst months of the last decade ending November 30, 2009:

Month	***S&P 500***	***HFRX Equity Hedge Index***
Oct 2008	-16.79	-9.99
Sep 2002	-10.86	-0.10
Feb 2009	-10.61	-1.28
Feb 2001	-9.11	-0.31
Sep 2008	-8.90	-8.59
Jun 2008	-8.42	-1.06
Jan 2009	-8.42	-0.15
Sep 2001	-8.07	-0.51
Nov 2000	-7.88	-1.79
Jul 2002	-7.79	-2.11

Past performance is no guarantee of future results.

The S&P 500 Index return was negative in 50 of the last 120 months. During those 50 negative months, the S&P 500 Index outperformed the HFRX Equity Hedge Index in only four months, or 8% of the time.

Our performance-measurement team at Turner has constructed a simple, hypothetical global equity portfolio with a 75% allocation to the broad-based Russell 3000 Index and a 25% allocation to the MSCI World ex-U.S. Index. Additionally, 25% and 50% weightings of long/short funds, using the Credit Suisse Long/Short Index, were added to the allocation. Needless to say, we found that the larger the allocation to the long/short index, the better the risk-adjusted performance of the portfolio.

Adding a long/short component to a global stock portfolio can enhance performance and dampen volatility

(continued on page 11)

(continued from page 10)

Annualized total returns and standard deviations:
10-year period ended September 30, 2009 *

Equity Exposure	*Total Return*	*Standard Deviation*
75% U.S. **25% Foreign**	1.46%	16.60%
56% U.S. **19% Foreign** **25% Long/Short**	3.23	14.17
37% U.S **13% Foreign** **50% Long/Short**	4.91	12.11

U.S. stocks are represented by the Russell 3000 Index, foreign stocks by the MSCI World ex-U.S. Index, and long/short stocks by the Credit Suisse/Tremont Long/Short Equity Index. Hypothetical example for illustrative purposes only. The same examples, when applied to a different time period, may produce very different results. Investors cannot invest directly in an index.
Source: Turner Investment Partners

Muting big losses

Over the 10-year period ending in 2008, the Credit Suisse Long/Short Index captured roughly 90% of the monthly up-movements of the Russell 3000 Index and just 71% of the monthly losses -- with the magnitude of those losses being much less. In absolute terms, the Russell 3000 Index gained an average of 3.07% in up months, compared with the Credit Suisse Long/Short Index's 2.22% advance. In down markets, the Russell 3000 Index lost 3.94% on average, versus just a 1.99% loss for the Credit Suisse index.

Indeed, we think the chief advantage of long/short equity investing is that it can help negate what *The Wall Street Journal* characterized as "the cruel math of big losses" -- when you suffer a large loss, you need a much bigger gain to get to the break-even point. A long/short portfolio with decent returns and volatility less than that of a long-only portfolio can achieve a higher long-term return even if its average return is lower.

For example, if a portfolio loses 10% one year, it needs to make an 11.1% return the following year to recoup the loss. If the losses are even steeper, the amount needed to break even is still higher. To neutralize a 30% annual loss, a portfolio must return 42.9% the following year.

And for a 40% loss, a portfolio must produce a whopping 66.7% gain. If the returns are less than that, however, the impact on a portfolio's worth is even more deleterious; it can take a long time -- years -- for a portfolio to rebound. For instance, in the event a portfolio loses 40%, it would need to earn 10% for 5.36 years to become whole again, as shown in the table below.

Negative returns can have a lingering impact *

If you lose this amount in one year…	***You'll have to make this much the next year (after fees) to get back to even…***	***Or you'll have to make 10% annually (after fees) for this number of years***
-10%	11.1%	1.1 yrs
-20	25.0	2.3
-30	42.9	3.7
-40	66.7	5.4
-50	100.0	7.3
-60	150.0	9.6
-70	233.3	12.6
-80	400.0	16.9
-90	900.0	24.2

Source: Turner Investment Partners

If you invest in stocks, losing money in some years is inevitable. But if the cruel math of 2008 has done nothing else, we believe it has highlighted the importance of avoiding large losses -- and avoiding large losses is the forte of a good long/short portfolio. If a long/short portfolio controls downside risk by losing less in declining markets, it doesn't need nearly as big upside returns to beat the market over time.

Delivering extra diversification

What's more, long/short equity strategies can provide an extra dimension of diversification to a long-only strategy. The diversification benefits stem from the ability of long/short strategies to offer returns with lower correlations to the stock market than long-only strategies do. Because long/short strategies don't correlate perfectly with U.S. and global stocks, they can make good diversifiers in a portfolio, while dampening volatility, as indicated in the following table.

(continued on page 12)

(continued from page 11)

Long/short investments tend to diversify an equity portfolio, dampening volatility

Cross-correlations: 1999- 2009 (ending 3Q)

	S&P 500 Index	***MSCI World Index***	***Credit Suisse Long/Short Equity Index***
S&P 500 Index	1.00	0.96	0.54
MSCI World Index	0.96	1.00	0.66
Credit Suisse Long/Short Equity Index	0.54	0.66	1.00

Source: Turner Investment Partners

For example, in the period from January 1999 through the end of the third quarter of 2009, the Credit Suisse Long/Short Index had a correlation of 0.54 with the S&P 500 Index and 0.66 with the MSCI World Index. In effect, with each component of the portfolio behaving in a less correlated manner, a global long/short portfolio can achieve a smoother -- and higher -- return with less frequent, less harsh losses. We believe the degree of positive correlation has led many investors to include long/short strategies as a part of their overall equity allocation, not as a component of an alternative or hedge-fund allocation.

The diversification benefits of long/short investing can be so compelling that some consultants have indicated to us that they are recommending that corporate and public plan clients allocate more money to long/short portfolios (and alternative investments in general) as a way to help fund their pensions.

In response, investment managers appear to be increasingly focused on long/short strategies. A recent joint study by BNY Mellon and consulting firm Finadium forecasts that the amount of long/short assets managed by traditional managers will increase 69% by 2012, to $345 billion.

Distinctions blurring

The BNY/Finadium study indicates that long/short equity mutual funds currently have $27 billion in assets under management and concludes that a substantial growth opportunity exists for both hedge funds and traditional investment managers. The study notes that traditional managers are "increasing their presence in long/short strategies while hedge funds are launching mutual funds" and that "current levels of leverage make hedge funds and investment managers look more alike than ever."

Against this backdrop, long/short equity mutual funds may hold a distinct competitive advantage: they typically charge lower fees than most hedge funds. "Two and 20" -- the traditional fee structure of hedge funds, which amounts to 2% of the assets managed and 20% of the profits generated -- has helped to transform "fledgling hedge-fund managers into instant tycoons," *The New York Times* observed. At the same time, two-and-20 fees have raised the hackles of more than a few investors, in response to the losses that many hedge funds recorded last year.

Two-and-20 fees compare unfavorably with those of a typical long/short equity mutual fund, with management fees that are generally between 1% and 2% annually. All things being equal, the lower fees of long/short mutual funds can enable investors to receive a higher return for a given level of performance than the fees of hedge funds.[1]

Big fees diminish wealth

The following hypothetical example illustrates how multiple layers of fees can be harmful to investors' wealth. Suppose that a long/short equity mutual fund, a hedge fund, and a fund-of-hedge funds each record a 10% return before fees on a $1-million investment. And further suppose that the mutual fund charges a total expense of 1.5% on the assets under management, that the hedge fund's fees are 2% of assets and a 20% incentive fee, and that the fund-of-hedge funds charges a 1% management fee and a 10% incentive fee for a combined total of a 3% management fee and a 30% incentive fee (that is, a double layer of fees: one-and-10 and two-and-20).

Because of the various fee and expense structures, the long/short mutual fund, the hedge fund, and the fund-of- hedge-funds will produce returns after fees that are markedly different. The long/short mutual fund's fees and expenses resulted in the least erosion to after-fee results. The 10% before-fee return of the long/short mutual fund with a 1.5% management fee translates into an 8.35% return once all the fees have been deducted. The hedge fund's higher fees result in the 10% return shrinking to 6.25% after fees. And the fund-of-hedge-funds' still-higher fees slash the 10% return by more than half, to 4.69% after fees.

(continued on page 13)

(continued from page 12)

Fees add up over time

For the fund-of-hedge funds, when you examine the impact of fees over three years, the results are even more striking. With a $1-million investment in a fund-of-hedge-funds that returns 10% annually for three years, and with a combined total of a 3% asset fee and a 30% incentive fee, an investor at the end of the period will reap a capital gain of $147,402 -- but pay $166,888 in fees *(see the table below)*.

We hasten to add that, in our judgment, some hedge-fund strategies can't be effectively adapted as mutual funds (i.e., those that invest in illiquid securities). However, we believe long/short equity strategies *do* lend themselves well to a mutual-fund format. In addition, we think many hedge funds, and a select number of fund-of-hedge funds, have proven deserving of their premium fees because they have delivered sterling performance to their clients.

Here's how fees can affect the after-fee returns that you receive on three $1-million hedged investments gaining 10% in one year …*

	Long/short mutual fund with 1.5% in total expenses	***Hedge fund with a 2% fee on assets and a 20% incentive fee***	***Fund-of-hedge funds with a 3% fee on assets and a 30% incentive fee***
Beginning portfolio value	$1,000,000	$1,000,000	$1,000,000
Portfolio value after 10% gain	1,100,000	1,100,000	1,100,000
Asset fee	16,500	22,000	33,000
Portfolio value after asset fee	1,083,500	1,078,000	1,067,000
Incentive fee	0	15,600	20,100
Portfolio value after all fees	**$1,083,500**	**$1,062,400**	**$1,046,900**
After-fees return	**8.35%**	**6.25%**	**4.69%**

And here's how fees can affect the capital gains you get and the fees you pay on three $1-million hedged investments gaining 10% annually over three years …

	Long/short mutual fund with 1.5% in total expenses	***Hedge fund with a 2% fee on assets and a 20% incentive fee***	***Fund-of-hedge funds with a 3% fee on assets and a 30% incentive fee***
Capital gains after three years of 10% returns	$271,999	$199,124	$147,402
Total fees paid after three years	$53,748	$119,985	$166,888

Hypothetical example for illustrative purposes only.

Liquidity a concern

Finally, we think many investors have two major concerns about hedge-fund limited partnerships: 1) the funds can make it difficult to redeem an investment and 2) the funds have a penchant for secrecy, which confounds efforts to monitor and assess them. In contrast, long/short equity mutual funds allow investors to redeem their money daily and offer a much higher degree of transparency -- two of their most distinguishing (and most appealing) characteristics relative to hedge funds, in our view.

Most hedge funds impose restrictions on when investors' money can be redeemed and on how long it must be invested initially. For their part, hedge-fund managers say such restrictions are necessary to prevent investor redemptions at the most inopportune times, which would imperil the effectiveness of the funds' investment strategies.

(continued on page 14)

(continued from page 13)

Granted, hedge funds must protect their ability to maximize returns for investors. As we see it, for many hedge-fund strategies, some restrictions make sense, but for more liquid long/short equity strategies, they make less sense. In our view, some hedge funds have opted to protect their investing interests rather than protect their investors. To some investors, what's particularly galling is that when their money is frozen in a hedge fund, they still are docked the 2% management fee. As one hedge-fund investor put it, "It's like telling guests at a hotel that they can't check out and then charging them for the privilege of staying."

Restrictions abound

Last year hundreds of hedge funds charged investors for that privilege. What's more, many hedge funds not only retain the right to close a gate on part or all of investors' assets but routinely establish "liquidity" restrictions blocking investor withdrawals for periods ranging from one month to three years.

Conversely, long/short mutual funds by law have no such restrictions; you must be allowed to withdraw your money on short notice. Long/short mutual funds are traded daily, at a price that's publicly available -- and although some funds charge redemption fees, they don't require investors to keep their money tied up for any set period.[2]

As for transparency, investors appear to have undergone a sea change in their attitudes since the bear market of 2008. Investors who were blasé about how close-mouthed hedge funds were about their holdings, investment strategies, and portfolio characteristics when returns were positive discovered that they cared a great deal about those things when returns soured.

Secrecy: a red flag

Previously, the secrecy of hedge funds had a certain marketing cachet; it contributed to a cozy mystique. About that mystique, business journalist Jeff Brown observed, "Investors feel they are being admitted to an exclusive club, that they have arrived and will now be allowed to benefit from the manager's unique genius. The same in-crowd appeal drew people to Bernard Madoff." Increasingly, however, secrecy has become a red flag for investors considering putting their money into a hedge fund. Many hedge-fund limited partnerships aren't required to say much about their holdings or their investment strategies (and many in fact don't).

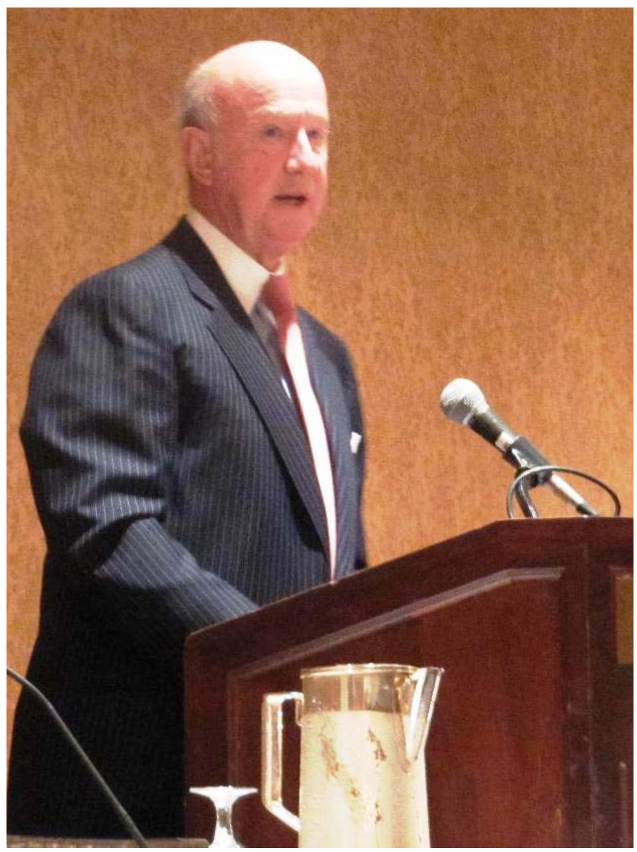
Long/short equity mutual funds, on the other hand, are *owned* by the shareholders and are required to provide frequent communication. For example, long/short mutual funds are required to report their holdings at least twice a year, must adhere to the investment strategies they describe in their prospectuses and marketing literature, and aren't permitted to employ excessive leverage.

In our judgment, the secrecy of hedge funds is largely unwarranted. Hedge funds, particularly those employing liquid strategies like long/short equity, should be able to provide enough detail about their holdings, risks, and strategies to satisfy investors without compromising performance.

In sum, long/short equity strategies can combine equity-like returns with lower volatility and downside protection. Long/short equity mutual funds offer the same potential benefits, but typically with lower fees and greater liquidity and transparency than most hedge funds. We think that in coming years small to mid-sized institutions will increasingly invest in long/short equity mutual funds as part of their diversified equity portfolios.

Turner Investment Partners, founded in 1990, is an investment firm based in Berwyn, Pennsylvania. As of September 30, 2009, we managed more than $17 billion in stocks in growth, international, core, value, and quantitative separately managed accounts and mutual funds for institutions and individuals.

Candid Pictures from PAPERS 6th Annual Forum – May 2010



A Guide to Global Real Estate Investment Options

***E. Todd Briddell, CFA**, is the President and Chief Investment Officer of Urdang Capital Management, Inc., the real estate investment advisory subsidiary of BNY Mellon Corporation. He is responsible for developing and leading Urdang's global investment activities in listed property securities, commercial mortgage debt and private equity real estate. Mr. Briddell joined Urdang's private equity acquisitions group in 1993, founded the listed property securities group in 1995 and led the design and development of its commercial real estate debt team in 2009. Mr. Briddell has more than 19 years of real estate investment experience.*

Prior to joining Urdang, Mr. Briddell worked for a pension fund advisor and was focused on distressed debt and property acquisitions, loan workouts and thetakeover and restructuring of a third-party opportunity fund. Mr. Briddell hasa B.S. in economics from the University of Pennsylvania. He is a member of NAREIT and the CFA Institute.

Global Real Estate Investing Offers Multiple Blueprints for Custom Exposures

Despite recent price turbulence in many developed world real estate markets, global real estate as an asset class continues to offer long-term institutional investors several important benefits: portfolio diversification through low correlations to other asset classes, solid cash flows and a measure of inflation protection through index-linked rents. Investing in real estate across the world enhances this diversification by allowing investors to choose among the strengths and weaknesses of local property markets as they evolve.

There are many ways to design exposure to global real estate depending on risk and return preferences. Investors can choose opportunities in real estate equity or real estate debt. Within each of those asset classes, there are multiple segments, each with its own advantages and disadvantages. The following discussion looks at the range of global real estate investment opportunities, the vehicles designed to capture them, and their relative merits. We also discuss the outlook for real estate following the global financial crisis and economic recession.

Why Global Real Estate?

Investing across regions can offer varied sources of returns, providing additional diversification to a portfolio. Real estate is, ultimately, a local business, with cash flows linked to the physical assets and influenced by local economic conditions. Thus, the timing and nature of real estate returns can be very different depending on prevailing conditions in countries and regions.

Investing globally allows investors to take advantage of region-specific opportunities. They can seek stable value investments in developed markets such as the U.S., the U.K., continental Europe, Canada and Australia. Alternatively, they can target emerging markets with high growth potential such as China and Brazil. Investors need to be aware, though, that going overseas involves risks, including a potential lack of transparency in many markets. While the real estate markets of the U.S. and U.K. are some of the most transparent, with price discovery and market data among the best, corporate governance and reporting standards vary considerably around the world.

Apart from interest rate fluctuations and inflation risk, another potential problem for global investors is the difficulty of identifying appropriate benchmarks for performance. It can also be more challenging to monitor and evaluate investments from a distance. Investing abroad is also likely to incur higher transaction costs, and there is the potential for exposure to foreign exchange risk. Another significant consideration in a globally diversified portfolio is liquidity, especially in less mature and less transparent markets. For many investors, investing in overseas real estate will require specialized expertise.

Below we consider various subclasses of equity and debt investments. Exhibit 1 summarizes the features of each of these asset classes, and Exhibit 2 looks at the pros and cons of each investment form. While not a comprehensive analysis, the following helps frame the issues for this asset class.

(continued on page 17)

(continued from page 16)

Exhibit 1
FORMS OF REAL ESTATE INVESTMENT

	Investment Form	Description	Investment Vehicle
EQUITY	Direct Real Estate	“Bricks and mortar” investment in phys real estate	Segregated account
EQUITY	Pooled Investments in Direct Real Esta	Investment in a fund that purchases physical property on behalf of its client	Ownership in a pooled vehicle, either open-end* or closed-end**
EQUITY	Listed Real Estate Securities (REITs)	Purchase of shares in publicly traded companies which invest in real estate, such as REITs	Ownership in a pooled vehicle, segregated account, or direct purchase of shares
EQUITY	REIT Preferred Stock	Preferred stock (or preference shares) shares that have a priority claim on the REIT’s cash flow	Ownership in a pooled vehicle, segregated account, or direct purchase of securities
DEBT	First Mortgage Debt	Whole loans backed by real properties	Ownership in a pooled vehicle or segregated account
DEBT	Commercial Mortgage–Backed Securit (CMBS)	Tranched securities that have as collat loans secured by commercial property	Ownership in a pooled vehicle, either open-end* or closed-end**
DEBT	Mezzanine	Investments that occupy a middle posi in the capital stack, as a subordinated or preferred equity position	Ownership in a pooled vehicle, either open-end* or closed-end**
DEBT	REIT Unsecured Debt	Corporate bonds issued by listed real estate companies	Ownership in a pooled vehicle, segregated account, or direct purchase of securities

*Open-end means that interests can be redeemed periodically based on the market values of assets. **Closed-end means open to subscription for a limited time, limited investment period and life, and limited or no redemption/transfer rights.
Source: Urdang

(continued on page 18)

(continued from page 17)

Exhibit 2
PROS AND CONS OF REAL ESTATE INVESTMENT FORMS

	Investment Form	Pros	Cons
EQUITY	Direct Real Estate	• Can target specific markets/ property types • Investment in “hard assets” • Specific cash flows from rental income	• More asset-specific risk • Need for a property/asset manager • Liquidity issues — takes time to sell or buy physical assets • High transaction costs
EQUITY	Pooled Investments in Direct Real Estate	• More diversified portfolio of underlying properties • Potential for increased liquidity	• Product claims to offer daily or monthly liquidity, but underlying assets can take much longer to sell • Transaction costs to buy and sell units are high
EQUITY	Listed Real Estate Securities	• Easier to diversify portfolio • Daily liquidity and pricing • Transparency of reporting • Attractive dividend yields	• Moves more in line with short-term movements in broad equity markets
EQUITY	REIT Preferred Stock	• Has a priority claim on cash flow • Higher dividend yields than REIT common stock • Listed on major exchanges and can be traded in small quantities	• Can offer lower total returns than common stock • Liquidity issues
DEBT	First Mortgage Debt	• Occupies first position in capital stack • Provides income throughout investment period	• Liquidity issues
DEBT	Commercial Mortgage–Backed Securities (CMBS)	• Can invest selectively in tranches to manage investment risk profile	• New issuance collapsed in the credit crunch • Diffusing risk to more investors doesn’t make risk disappear
DEBT	Mezzanine	• Can offer higher returns than first mortgage debt	• Greater risk than first mortgage debt
DEBT	REIT Unsecured Debt	• Offers greater liquidity than many other forms of real estate debt	• Dependent on a REIT’s ability to repay • Not secured by specific assets • Can be volatile and illiquid

Real Estate Equity Investing

Investing in real estate equity covers a broad range, from the direct purchase of a property to buying shares in a real estate investment trust (REIT) or a property unit trust. An investor’s concerns about diversification, liquidity, correlation and transaction costs will affect investment choices. Equity real estate investments can be grouped according to the level of direct or indirect ownership.

Direct Property — Investors can purchase physical assets such as an office building, shopping center or warehouse. Done on a relatively large scale by an institutional investor, these investments can be made through a segregated or separate account. Investments can be made in a joint venture with another investor and/or an experienced operating partner, or owned by a single investor. An advantage to this approach is the ability to target specific geographic markets or property types; investors have a great deal of control over their investment strategy.

(continued on page 19)

(continued from page 18)

By buying a physical property, investors have invested in a hard asset and enjoy specific cash flows from rental income, in addition to any gains in value realized at the time of sale. But there is another side to that physicality: direct ownership of property increases the illiquidity of the investment as it takes time to buy or sell a property. In addition, there are high transaction costs associated with property sales. Investors will also have to hire property or asset managers to attend to the day-to-day management of the property — collecting rents, fixing leaky pipes, finding new tenants, etc.

Transparency with regard to valuation is another issue for direct property investors. Indices tracking direct real estate value, such those maintained by the National Council of Real Estate Investment Fiduciaries (NCREIF) in the U.S., and the Investment Property Databank (IPD) in the U.K. and continental Europe, tend to lag the "market." This is because appraised values are inherently backward-looking; they are based on market evidence which takes time to make its way into the statistics. This "capital appreciation lag" means that valuation and the benchmarking of performance are not easy.

Smaller investors, without as much capital to invest, will find it difficult to achieve adequate diversification within a real estate portfolio of a handful of properties, and the success of these assets can depend greatly on localized factors.

Pooled Funds — A pooled or commingled fund gathers capital from a group of investors and uses it to purchase a portfolio of properties; these investments can include property unit trusts in the United Kingdom, open-end real estate funds in Germany, or private equity real estate funds in the United States. Pooled funds generally are able to acquire more properties than an individual investor, and so are able to have a more diversified portfolio of underlying properties.

Pooled funds can be either open-end or closed-end. A closed-end fund has a fixed term and aims to raise investment money, acquire assets, hold them for a specific period, then sell the assets for a gain. It can be difficult to sell an investment in a closed-end fund before the fund liquidates. While there are a small number of investors that acquire secondary fund interests, valuation is difficult and some funds restrict their investors' ability to sell their ownership.

Open-end funds do not have a fixed term, and so investors can, in theory at least, buy into the fund or sell out of the fund at their own discretion. Redemptions are generally covered through new investment capital, but during downturns in the property markets — e.g., the early 1990s and late 2000s — when many investors might want to exit a fund at the same time that few investors want to invest, the fund will be forced to sell underlying assets to meet redemption requests. Also in a property downturn, the open-end fund will find it more difficult to sell assets, and long redemption queues can develop. The same issues discussed above surrounding indices and lags in valuation data apply equally to pooled fund structures.

Style of Return — Pooled funds and direct investments can also be segmented by investment style or expected return. Funds can be categorized as core, value-added or opportunistic. A **core** fund will acquire fully leased properties in prime locations. Core is perceived as having lower risk, with expected returns from rental cash flows and moderate appreciation in the 8–12 percent range, assuming a moderate level of leverage. **Value-added** funds occupy the middle ground, with a focus on properties that could benefit from improved leasing or redevelopment and have expected returns of 12–18 percent. **Opportunistic** funds invest in target the higher risk, higher reward segment, perhaps investing in ground-up development or distressed assets, and can have expected returns of 18+ percent.[1]

Real Estate Securities — Another way for investors to invest in property is through the purchase of real estate securities — equity shares of publicly traded companies that invest in real estate, such as REITs or real estate operating companies (REOCs). Investors can directly purchase real estate securities, or they can invest in a fund or separate account that is professionally managed. REITs, which have an advantageous tax structure by virtue of distributing almost all their taxable income in the form of a dividend, also offer attractive dividend yields, and global REITs have delivered average total returns of just over 9 percent annually over the past 10 years.[2]

(continued on page 20)

[1] James D. Shilling and Charlie Wurtzebach, "Is Value-Added and Opportunistic Real Estate Investing Beneficial? If So, Why?" *Pension Real Estate Association Research,* April 11, 2010. Higher expected returns also carry a higher risk of loss.

[2] FTSE EPRA/NAREIT Global Real Estate Index Series (see index definition at back).

(continued from page 19)

An advantage to investing in real estate securities is the speed with which an investor can ramp up a portfolio; it is much quicker to buy stock than it is to buy a building. Real estate securities can offer daily liquidity and pricing, as well as transparent reporting processes. It is also much easier to invest in a portfolio that is broadly diversified by geographic region and property type compared with buying physical real estate. Listed real estate securities also provide investors with a relatively easy method of investing in global property. The sector lends itself readily to dynamic portfolio management, with the ability to capture outperformance through active overweights and underweights of various property types and/or regions, whose returns are relatively uncorrelated. Although the primary assets of REITs and REOCs are real estate, they are also operating businesses, generally run by experienced management teams with access to capital sources and the know-how to create more value from real estate.

There are trade-offs, however, that come with being a listed stock investment, one of which is volatility. REITs and other real estate securities are more closely correlated to stock market movements than other real estate investments. The shares often move in line with short-term movements in broad equity markets.

REIT Preferred Stock — REIT preferred stocks (or preference shares) are shares that have a priority claim on the REIT's cash flow, and thus tend to provide higher dividend yields, though lower total returns, than REIT common equity.

REIT preferred stock can be particularly attractive to individual investors because they are mostly listed on major stock exchanges and can be traded in small quantities. Unlike bonds, preferred stocks do not have a fixed maturity date. REIT preferred stock is most commonly issued by U.S.-listed real estate companies; recently we have seen the beginnings of a resurgence in preferred issuance.

Real Estate Debt Investing

Real estate debt investing is typically made through a closed-end pooled fund or separate account structure, due to the fact that debt investments are generally less liquid than equity securities. Investors can have a variety of options along the risk curve and in public and private debt.

First Mortgage Debt — Investors in commercial real estate debt can do so as first mortgage lenders. Although this has largely been the province of insurance companies and banks, there are now opportunities, through commingled funds or separate accounts, to make whole loans backed by one building, or a small number of properties.

An advantage of first mortgage lending is that it occupies the first position in the capital structure, thus making it less risky than equity investing or mezzanine lending. In addition, whole loan investing can provide more stable current yield throughout the investment period, versus some direct property strategies in which income may be more skewed to the "back end" of the investment period after value enhancements to a property (e.g., redevelopment or refurbishment) are completed.

CMBS — Commercial mortgage–backed securities (CMBS) are bonds that have as collateral loans secured by commercial property. Most CMBS transactions are structured as real estate mortgage investment conduits (REMICs), which are intended to hold a pool of mortgages for the exclusive purpose of issuing multiple classes of mortgage-backed securities.

Under the CMBS structure, commercial mortgage loans are pooled and warehoused by a funding source and then securitized and marketed once the pool reaches a critical mass. Investors in CMBS can target investment-grade securities (those with AAA, AA, A and BBB ratings), or non-investment-grade securities (BB, B and unrated classes). CMBS offerings use credit enhancement and subordination to create tranches with different ratings to meet different investor appetites. AAA CMBS is more analogous to bond investing and often falls into investors' fixed income allocation. The non-investment-grade classes, often called the B-piece, are frequently targeted by high-yield debt funds.

New CMBS offerings disappeared in the credit crunch of 2008, but a series of government programs, including the U.S. Term Asset-Backed Securities Loan Facility (TALF), have made efforts to restart CMBS lending programs. In the U.K., supermarket giant Tesco breathed life into the CMBS market in mid-2009 by selling debt backed by its commercial property portfolio.

(continued on page 21)

(continued from page 21)

Mezzanine — Mezzanine investments occupy a middle position in the capital stack, as a subordinated debt or preferred equity position. The investment carries more risk than first mortgage debt, but the returns are generally higher. Mezzanine capital is often used in property development, filling in the gap between construction loans and a developer's equity investment. Mezzanine investment can also be used to recapitalize assets or in place of a joint venture for property acquisitions.

REIT Unsecured Debt — REIT unsecured debt involves corporate bonds issued by real estate investment trusts. These corporate bonds offer greater liquidity than many other forms of real estate debt investing. While some investors hold bonds until maturity, other investors will actively trade these bonds. The liquidity of REIT bonds also gives rise to higher volatility, as they can fluctuate in response to economic conditions and broader market movements. Unsecured debt is dependent on the company's ability to repay the bond and is not secured by specific assets, unlike a mortgage. However, REITs do have tangible assets on their balance sheets, which makes their corporate bonds attractive to investors.

Returns and Fees

In addition to different risk characteristics, investors need to consider both fee structures (including timing of fees charged) and differing return levels. Exhibit 3 shows the general range of fees that investors would expect to pay on various fund structures, while the following chart shows returns from various real estate asset classes from 1997 to 2008 (it is important to keep in mind the variability within the average returns).

Exhibit 3 - TYPICAL FEE STRUCTURES

Investment Form	Asset Types	Fees/Structure
Real Estate Private Equity – closed end pooled vehicles	• Direct Property • Real Estate Debt • Real Estate Funds ("fund of funds")	• 3 year investment period; 7 year total fund life • Asset Management Fee: 100-150 bps on committed/deployed equity (preferential terms available to seed investors/larger commitments) • Manager typically receives a promote, or carried interest – i.e., an increased share of residual cash flows above an IRR/preferred return hurdle when the fund is liquidated • Asset acquisition or disposition fees may be included (50-200 bps) • All-in annual cost*: 250-350 bps
Real Estate Private Equity – Separate Accounts	• Direct Property	• Asset Management fee is charged as a percentage of invested/committed capital • Asset acquisition or disposition fees may be included (50-200 bps) • Incentive fee typically based on returns from sale of portfolio assets; tested at portfolio level • All-in annual cost*: 100-200 bps
Pooled Investments in Direct Real Estate – typically open ended	• Direct Property • Some funds hold real estate securities as a liquidity buffer	• 100-200 bps on fund net asset value • Exit and entrance fee implicit in wide bid/ask spread for units.
Real Estate Securities Funds/Separate Accounts	• Real Estate Securities	• 100-200 bps on net asset value; lower for larger accounts • Some offer performance fee structures with a significantly lower base fee and an incentive fee based on benchmark outperformance

***** The all-in annual cost represents the expected difference in annual return between an equity internal rate of return (IRR) calculation on a gross basis, versus an IRR calculation net of all fees and incentive payments/promotes.
Source: Urdang

(continued on page 22)

(continued from page 21)

Global Real Estate Outlook

The global financial crisis began in the U.S. subprime real estate market and affected property markets across the world. We expect that real estate fundamentals will decline well into 2010 in many global markets. Commercial real estate lending was too aggressive during the property boom, and now write-downs of bad loans will continue; some borrowers will be unable to refinance. The economic downturn means that cash flows from rental income will decline or at best stay flat, as occupancy levels and rental rates decline, though we expect demand will pick up again during the second half of 2010.

Despite these problems, we believe there is cause for optimism. We expect real estate values to stabilize this year. New real estate development has ground to a halt, with the pipeline of new assets in major markets at a very low level. The lack of supply of new space will ultimately result in falling vacancy rates and increasing rents. This will lead development to restart; we are already seeing signs of this in central London, where the leasing environment is improving and rents are rising strongly.

We are moving into a real estate investing environment with lower debt levels and lower expected returns. There will be more focus on rental income security, and less on capital gains from property price appreciation.

We expect the decoupling of global markets will have a significant impact on returns. Asian markets, excluding Japan, and emerging markets will be near-term winners, but volatile. Low growth in the U.S., U.K. and continental Europe will likely shift investors' focus to income in those markets.

Private real estate investors have had trouble raising new equity, while listed REITs are shaping up to be in the best position for the next few years. Listed REITs have strengthened balance sheets by raising new equity, and with their experienced management teams, will be able to take advantage of distress in the real estate markets and will have the financial strength to develop new properties as demand for space returns.

Listed real estate securities are generally a leading indicator of the recovery of the real estate markets; thus we have already seen a significant rally in most global listed markets, in line with the broad equity market recovery. However, we still believe that great value and growth opportunities abound for an active manager.

In the direct property market, the emergence of distress has been slow, with banks continuing to subscribe to the "extend and pretend" strategy with regard to their commercial real estate loan books. However, those with access to equity and less reliance on debt funding are starting to see more distressed opportunities at great prices coming from those in immediate distress or in need of short-term liquidity.

As banks in the U.K., continental Europe and the U.S. start to address their loan portfolios more proactively, we think the opportunity for debt investing will expand significantly. Investors should be able to bridge the gap between demand for first mortgage (or mezzanine) refinancing and the reduced appetite of commercial banks for real estate exposure. We expect that the CMBS market will return, albeit on a smaller, simpler, more conservative scale. Further up the risk spectrum, there will be opportunities to invest in distressed situations through the purchase of deeply discounted existing performing loans, or participation in nonperforming "loan-to-own" situations. However, the key to success with all of these strategies is a thorough understanding of the underlying real estate collateral; after all, an investor has to be ready to own the real estate should a loan default.

With such a wide range of choices, investors should carefully consider their return objectives as well their risk appetite and volatility tolerance. As the universe of investment opportunities expands globally, so too does the stock of high-quality real estate assets investors can consider for deepening their sources of diversification.

Economic Insights: **Beware of PIIGS in a Poke**

Milton Ezrati, *Partner and Senior Economist and Market Strategist*

Milton Ezrati, Partner and Senior Economist and Market Strategist, has been widely published in a wide variety of magazines, scholarly journals, and newspapers, including *The New York Times, Financial Times, The Wall Street Journal, The Christian Science Monitor,* and *Foreign Affairs*, on a broad spectrum of investment management topics. Prior to joining Lord Abbett, Mr. Ezrati was Senior Vice President and head of investing in the Americas for Nomura Asset Management, where he helped direct investment strategies for both equity and fixed-income investment management.

It is, as ever with financial matters, a question of confidence. Greece is too small—economically about the size of Connecticut—to bring down the world without help. The European rescue package is plenty big enough to provide liquidity for Greece and the other PIIGS—Portugal, Ireland, Italy, and Spain—at least for the time being. But no package, however large, will do if financial markets lose confidence in Europe's longer-term ability to manage its finances. For now, despite the headlines, it looks as though confidence of a sort will hold, but huge risks remain.

When considering the source of trouble, the recent support seems more than adequate. In addition to the €110 billion rescue fund put together earlier in the year, the European Union (EU) and the European Central Bank (ECB) last month put up some €500 billion in new loans and loan guarantees and the International Monetary Fund (IMF) put up some €250 billion. Against these huge amounts, Greece has a gross domestic product (GDP) of only about €260 billion, barely even half a percent of global GDP and only 2.5% of eurozone GDP. The PIIGS combined have a GDP of barely 7% of global GDP, and not that much bigger than the EU–IMF package itself. These rescue funds equal almost three-quarters of the combined public debt of all the PIIGS and exceed by more than a third their total 2010 financing demands, both the debt they need to roll over and new debt to support this year's deficits. (See tables 1 and 2.)

Table 1.
Gross Domestic Products
(in $ equivalent)

	2010E	% of Global Total
World	$61,781.5	100.0%
EuroZone	12,450.0	20.2
Emerging Economies	20,217.0	32.7
PIIGS	4,313.0	7.0%
Portugal	226.0	0.4
Italy	2,121.1	3.4
Ireland	216.1	0.4
Greece	325.1	0.5
Spain	1,424.7	2.3
United States	14,799.6	24.0%
China	5,364.9	8.7%

Source: International Monetary Fund.
E = estimate.

Table 2.
European 2010 Financing Needs—Rollovers of Maturing Debt and Deficit-Induced New Financing
(€ in millions)

	Financing Millions of	% of GDP
Austria	€ 28.0	10.2%
Belgium	89.1	26.3
Finland	24.7	13.9
France	377.5	19.5
Germany	341.6	14.4
Greece	49.7	20.0
Ireland	37.4	22.4
Italy	326.9	21.3
Netherlands	114.1	19.6
Portugal	36.1	22.3
Spain	205.2	19.4
Total	€1,630.3	18.4%

Source: Eurostat.

So far, the evidence suggests that markets, though understandably fearful, believe that matters are manageable, certainly more than they were in 2008–2009. To be sure, the countries in question have seen spreads on their sovereign bonds widen beyond the 2008–09 experience, but for the rest, matters are far from that recent, horrible experience. European corporate bond swap spreads, for instance, remain a fraction of 2008–09 levels. Even swap spreads on those European banks described as highly vulnerable to Greek and Spanish debt remain a third lower than during the 2008–09 crisis. The adverse effect dissipates with distance. Three-month interbank lending spreads in dollars, for example, stand at only 40 basis points (bps) above Treasury bill rates, up surely from 20 bps before the Greek crisis broke, but a long way from the 460 bps touched during the 2008–09 crisis. The jump in dollar junk bond yields—from 600 bps over Treasuries to about 750 bps—hardly compares with the 2,100 basis-point spread of the 2008–09 crisis. Meanwhile, issues continue to come to market and credit demands are met.

(continued on page 24)

(continued from page 23)

Whether this degree of confidence holds or yields to the “contagion” of which the media endlessly speaks depends on an improvement in the longer-term finances of these countries. To that end, the EU–IMF rescue plan makes harsh demands on Greece, and by implication on any of the other PIIGS that would avail themselves of financial support. The EU insists that the Greek parliament pass legislation in a series of steps between now and 2011 to increase taxes, cut outlays, and implement pension reform to bring the nation’s deficits back to European norms. Other nations counted among the PIIGS have proactively implemented budget reforms to avoid Greece’s humiliating fate. The faster and more thoroughly Greece and these other nations put these reforms in place, the greater confidence markets will have that a solution has emerged, the less any of these nations will need the rescue funds, and the lower the chance of the dreaded “contagion.”

But though such developments will surely disarm this crisis, they will not solve the fundamental imbalance that lies at the root of the EU’s problems. That basic problem reflects the different rates at which these countries entered the eurozone. On one hand, a strong Germany converted to the euro at a remarkably cheap exchange rate, giving its exports attractive price advantages elsewhere in Europe. On the other hand, Spain, Greece, and these other nations entered the zone at a high exchange rate, so their products have faced competitive disadvantages. It is little wonder, then, that Germany sold more relative to its resources while the PIIGS bought more.

If these nations had separate currencies, they could correct this problem through relative devaluations and revaluations. But because they are together now in the eurozone, the adjustment will have to happen through relative rates of inflation—higher in Germany and lower in these other nations. Since the Germans will not accept much inflation, however, the burden of the basic adjustment will demand extreme disinflation, even deflation in Greece and the other PIIGS. The fiscal restraint on which they have embarked could do that, but it will arrive, as is already evident, only with considerable hardship and over a considerable time frame.

Properly Measuring and Monitoring Benchmark Misfit

By: Sherri Daniels, Dow Jones Indexes, Phone: 609-510-3764; E-mail: Cheryl.daniels@dowjones.com

- **Benchmark misfit can be decomposed into two categories: (1) gaps and overlaps, and (2) allocation misfit.**
- **Benchmark misfit is an investment decision that leads to uncompensated risk. Prudent investors do not take uncompensated risks because they do not receive additional return for doing so.**

Benchmark misfit is calculated as the difference between the return of the asset class benchmark and the weighted average return of all benchmark mandates assigned to individual asset managers. In other words, misfit exists when the sum of the assigned parts does not equal the desired whole.

Benchmark misfit can be decomposed into two categories: (1) gaps and overlaps, and (2) allocation misfit.

Gaps and overlaps occur when the sub-asset class benchmarks are mixed and matched among different index providers. Figure 1 illustrates an example of the gaps in market coverage when the large-cap and small-cap benchmarks are set to the S&P 500 Index and Russell 2000 Index. The asset class benchmark has been set to the Dow Jones U.S. Total Stock Market (TSM) Index, which covers the entire opportunity set of all U.S. equity securities with readily available prices.

Figure 1. Gaps in Market Coverage

Benchmark	Constituents	Market Cap ($ billion)	Market Coverage
Dow Jones U.S. Total Stock Market Index	4,599	9,662.04	100.00%
S&P 500 Index	500	7,851.81	81.26%
Russell 2000 Index	1,934	745.35	7.71%
S&P 500 + Russell 2000 Subtotal	2,434	8,597.16	88.98%
Gap in Market Coverage	**2,165**	**1,064.88**	**11.02%**

(continued on page 25)

(continued from page 24)

As of January 1, 2009, the gap in market coverage of the S&P 500-Russell 2000 combination results in 2,165 missing constituents, which is nearly half of all available constituents. This equity gap leaves over $1 trillion, or 11%, of the U.S. stock market unaccounted for. No reasonable investor should use a benchmark that excludes the top 11% of the U.S. equity market, the bottom 11% or any other 11%.

Allocation misfit exists when asset allocations deviate from the actual market coverage of the asset-class benchmark. Figure 2 illustrates an example of allocation misfit. The result of these decisions (i.e., underweighting large-cap, overweighting small-cap and underweighting micro-caps) is approximately 7 basis points in benchmark misfit. Those 7 basis points represent a performance mismatch that can be directly attributed to the allocation decisions exclusive of manager performance.

Figure 2. Allocation Misfit

Benchmark	Sub Asset-Class Allocation	Actual Benchmark Coverage	Quarter Ending Mar 31, 2009
Dow Jones U.S. Large-Cap TSM	85%	88.25%	-10.32%
Dow Jones U.S. Small-Cap TSM	15%	10.68%	-12.42%
Dow Jones U.S. Micro-Cap TSM	0%	1.06%	-10.06%
Weighted Average Benchmark Performance		-10.56%	-10.63%
Benchmark Misfit Impact			**-0.07%**

Figure 3 illustrates an example of the compounding effect of the allocation misfit along with gaps in market coverage. Using the benchmarks from Figure 1 and the sub-asset allocation decisions from Figure 2, the result of these decisions (i.e., ignoring ~500 mid-caps and 1665 micro-caps) is, after one year, approximately 104 basis points in benchmark misfit. Stated differently, the decision to deviate from the actual market coverage of the asset class benchmark has, in this case, "cost" the investor 104 basis points. Note that the decision is on the part of the *investor*, who has responsibility for assigning the individual benchmarks and weights. The misfit *excludes* any "alpha" which, whether positive or negative, is generated by the aggregate decisions made by the *managers*. This distinction is critical.

Figure 3. Compounded Misfit

Benchmark	Sub Asset-Class Allocation	Quarter Ending Mar 31, 2009
S&P 500 Index	85%	-11.01%
Russell 2000 Index	15%	-14.95%
Weighted Average Benchmark Performance		-11.60%
Asset-Class Benchmark Performance		-10.56%
Benchmark Misfit Impact		**-1.04%**

Benchmark misfit is an investment decision that leads to uncompensated risk. *Prudent investors do not take uncompensated risks because they do not receive additional return for doing so.* Therefore, benchmark misfit needs to be properly measured and monitored.

Sherri Daniels
Dow Jones Indexes
609 510 3764
Cheryl.daniels@dowjones.com

*Excerpted from the Journal of Indexes article *"Benchmarking Policy Portfolios"* July/August 2009.

The Benefits of Emerging Markets Debt

January 2010

The Emerging Markets Debt (EMD) asset class has experienced a significant positive evolution over the past 10 to 15 years. The returns of EMD have been among the top performing asset classes over this time period (1/1/1995 through 9/30/2009) and it has easily beaten other fixed income sectors including high yield, investment grade corporates, mortgage backed securities and government bonds. These strong returns have been the result of significant improvement in the overall credit quality of EMD, driven largely by the tremendous growth in these emerging countries represented by Brazil, Russia, India, and China (BRIC). Going forward, these developing economies will likely continue to enjoy higher growth and play an even more dominating role in the global economy and financial markets. Given both the positive outlook in EM fundamentals and good historical performance, we expect a growing acceptance of EMD by institutional investors and potentially significant inflows of capital into EMD. All together, we believe that EMD will continue to generate above average returns and should be included as a separate allocation within a fixed income portfolio.

"Given the positive outlook in EM fundamentals and good historical performance . . . expect a growing acceptance of EMD by institutional investors"

What is Emerging Markets Debt ?

Emerging Markets Debt consists of fixed income securities issued by governments or corporations from emerging countries. Emerging Market (EM) typically refers to all economies outside those classified as *developed countries*. Emerging Markets cover roughly 80% of the global population. It includes Asia (excluding Japan), all of Latin America, Russia, Eastern Europe, Africa, and the Middle East.

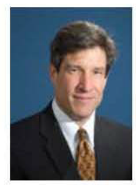
Unlike high yield where securities have to be rated below investment grade, EMD is not dependent on ratings and includes many investment grade rated countries.

The Evolution of Emerging Market Debt

The asset class of EMD has had significant changes since the early 1990s. In the beginning, EMD was very limited and consisted primarily of U.S. dollar-denominated, non-investment grade Brady bonds issued by Latin American countries. Over time, EMD has matured and developed to include a much larger selection of countries spread across the globe with a large variety of government and corporate bonds issued in various currencies (including local currencies).

Yong Zhu, PhD, CFA
Senior Portfolio Manager

12 Years of investment experience
PhD—Princeton University



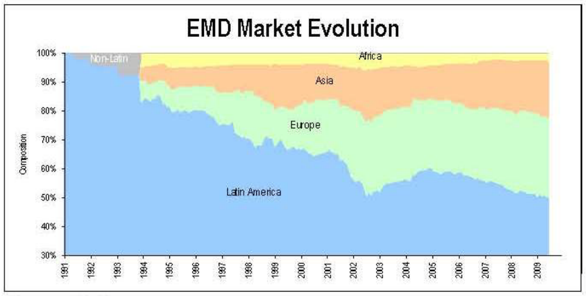
Mark Foust
Senior Portfolio Advisor

24 Years of investment experience
MBA—Pennsylvania State University
BS—Carnegie-Mellon University

DuPont Capital Management
One Righter Parkway, Suite 3200
Wilmington, DE 19803
Tel 302.477.6000
www.dupontcapital.com

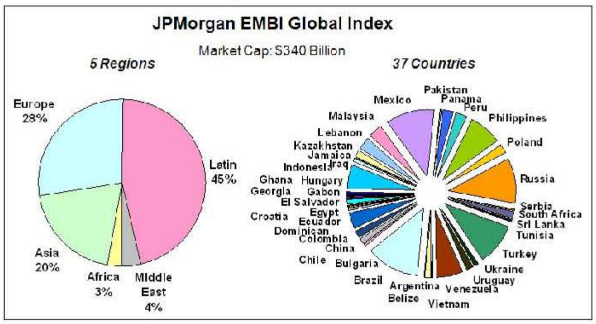
(continued on page 27)

(continued from page 26)



Source: J.P. Morgan

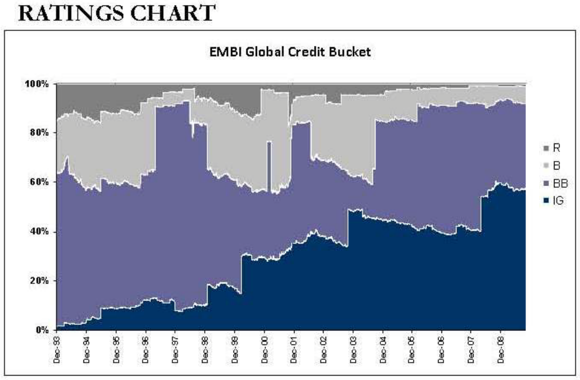
Today, the most widely used index for this asset class, the JP Morgan EMBI Global Index, has a market capitalization of over $325 billion and includes 37 countries from 5 regions (Latin America, Eastern Europe, Asia, Africa and the Middle East). This index only includes U.S. dollar denominated issues by governments, so the overall EMD asset class is much larger when you include issues in currencies other than the U.S. dollar and EM corporate bonds.



Source: J.P. Morgan (December 31, 2009)

As mentioned, the credit quality has improved immensely over the past fifteen years which is the result of fundamental changes in many emerging countries. While the vast majority of countries were rated BB or B in 1994, now over 50% of the index is rated investment grade (BBB or higher). In addition, the percentage of the index that is rated CCC and below fell from over 15% to less than 5%. The chart below shows the higher migration of ratings since the asset class developed in the early 1990s.

RATINGS CHART



Source JP Morgan (September 30, 2009)

Strong Performance of EMD

EMD has had very strong performance and has outperformed most fixed income and equity asset classes over various time periods.

As of 12/31/2009	5 Years	10 Years	15 Years
JPM EMBI Index	7.99%	10.90%	12.70%
Barclays Aggregate Index	4.97%	6.33%	6.80%
Barclays High Yield Index	6.46%	6.71%	7.57%
S&P 500 Index	0.42%	-0.95%	8.05%

It is important to note that these strong results have come over periods that include the Mexican crisis in 1995, the Russian default in 1998, the Argentina default in 2002 and the financial crisis and global recession of 2008-2009.

Why Invest in Emerging Markets Debt Today ?

We believe Emerging Markets Debt offers numerous benefits and should be included as a separate allocation within investors fixed income allocation.

1) Continuing Strong Growth

Emerging countries as a whole have experienced much higher growth than developed countries over the past ten to twenty years. This is largely driven by the unprecedented evolution of globalization. Globalization created tremendous growth potential for EM countries which have a competitive advantage over developed countries because of large pools of cheap labor and abundant natural resources. This historical change in the global economy is best illustrated by the unprecedented emergence of China. China has become the global center of manufacturing and has by far the largest demand for natural resources such as oil, gas and iron ore.

The global financial crisis of 2008 after the collapse of Lehman Brothers presented a stress test for EM. The crisis generated significant damages to the developed countries of U.S., Japan, and Europe and it was widely believed that the significant drop in exports to those developed economies would exert a considerable drag on EM economies. However, as we now know, EM economies have navigated the global crisis surprisingly unscathed, as their financial systems were largely isolated from the global turbulence and their domestic demand provided an important cushion.

Going forward, domestic demand and investment could likely provide new economic growth for EM. Together with the widely predicted slower growth in most developing countries, EM should be more important in driving global growth. We believe investors should position themselves in investment opportunities driven by EM's fast growth and their huge appetite for resources.

(continued on page 28)

(continued from page 27)

The significance of EM economies can be seen by the creation and growing importance of the G20, which is the G8 (on the left of table below) with the addition of the leading emerging economies (highlighted in red below).

G-20 (Group of 20 Finance Ministers and Central Bank Governors)		
United States	**Brazil**	**China**
United Kingdom	**Mexico**	**India**
France	**Argentina**	**South Korea**
Germany	**Turkey**	**Indonesia**
Italy	**South Africa**	**Saudi Arabia**
Japan	**European Union**	**Australia**
Canada		
Russia		

2) Improving Credit Quality

We believe EMD credit quality will continue to improve:

a. Lower public debt ratios.

Public sector debt has been shrinking in many EM countries due to higher growth and more responsible macro economic management. Even with the unusually large fiscal spending in response to last year's global crisis, total gross public debt for EM in aggregate is approximately 45% of GDP. By comparison, many developed countries are running debt ratios of close to 100% of GDP.

b. Significant accumulation of Foreign Reserves.

EM have accumulated significant amounts of FX reserves, partially driven by years of trade surplus. Currently, China alone has more than $2 trillion in FX reserves and EM countries in total have approximately $4.5 trillion.

c. Substantial increasing of funding from International Monetary Fund (IMF).

From a G20 mandate, the IMF has substantially increased its lending facility from $250 billion to over $1 trillion. The lending will be mostly into EM countries.

3) Increasing Investor Acceptance

Historically, EMD has been an under-allocated asset class, with US pension fund allocations at less than 1%.

a. Good economic fundamentals and strong historical returns should attract institutional and individual investors.

b. Investments from Central Bank Reserve Fund and Sovereign Wealth Fund (SWF).

We expect there will be a movement over time away from U.S. Treasury Bills into EMD.

c. Concerns about huge fiscal deficits in developed countries and the U.S. dollar will encourage more investment in EMD.

4) Valuations Still Attractive

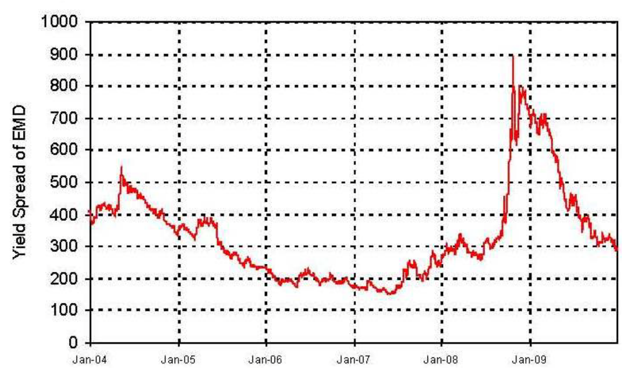
EMD tends to offer attractive yields as compared to other fixed income asset classes. Below is a comparison of the yields and credit quality of various indices.

Index	JPM EMBI Global Diversified	10 year Treasury	Barclays Capital Aggregate	Barclays Capital High Yield
Yield	**6.61%**	**3.84%**	**3.68%**	**8.76%**
Avg. Credit Quality	**Ba1/BB+**	**AAA**	**AA1/AA2**	**B1/B2**

Source: J.P. Morgan, Barclay (December 31, 2009)

While EMD has lower yields than high yield, it also has higher average credit quality, a much lower historical default rate and higher recovery values when defaults occur. Over time, the average credit quality of high yield can only improve marginally as companies that are upgraded to investment grade are moved out of the index. This is not the case with EMD and the credit quality has steadily improved over the past ten years.

In addition, spread levels for EMD are typically wider than most fixed income products with the exception of high yield. Below is a chart of EMD spreads over treasuries over the last six years.



Source: J.P. Morgan (December 31, 2009)

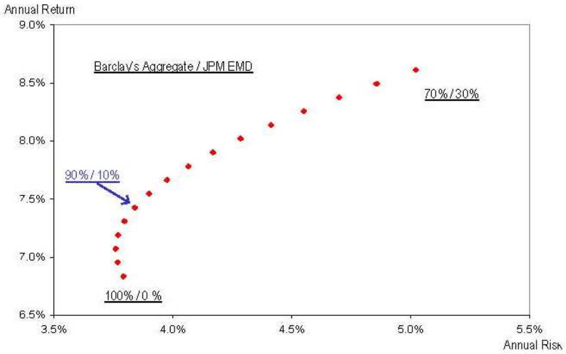
We feel the spreads for EMD are attractive considering the improving credit quality and low historical default rates. The potential for tightening spreads as global economies recover over time could also lead to price appreciation and enhance total returns.

(continued on page 29)

(continued from page 28)

5) Diversification Benefit

EMD has the potential to reduce the volatility of a portfolio. The chart below demonstrates how adding EMD to the Barclay's Capital Aggregate Index can both increase returns and lower the overall risk.



Source: J.P. Morgan, Barclay (Note: Historical data 1995-2009)

Looking forward, we believe that adding EMD to a broad portfolio will continue to reduce overall portfolio risk.

In addition, returns of EMD have not been closely correlated with other asset classes.

Three-year correlation with various asset classes

Indices	JP Morgan EMBI Global
Barclays Capital Aggregate	**0.36**
Barclays High Yield	**0.54**
Barclays U.S. Treasury	**0.21**
S & P 500	**0.65**
MSCI Emerging Markets Equity	**0.53**

Summary

The Emerging Markets Debt asset class has experienced a significant positive evolution over the past 10 to 15 years and we believe this will continue over the next decade. With the expected continued stronger economic growth in these countries, improving credit quality and increasing investor acceptance, we believe EMD will continue to provide strong results with diversification benefits. Therefore, we strongly believe EMD should be included as a separate investment within the fixed income allocation of an overall portfolio.

4th Annual PAPERS Fall Workshop

Thursday, September 23, 2010

7:00 a.m. – 5:00 p.m.
Continental breakfast and lunch included

Held at The Desmond Great Valley Hotel & Conference Center
One Liberty Blvd., Malvern, PA 19355

Continuing its mission to facilitate education for persons affiliated with Pennsylvania's public pension plans, PAPERS is pleased to announce plans for this one-day educational workshop in the Philadelphia area. Free admission for all representatives of pension plans and retirement systems; no limit on the number of individuals who may attend.

Registration for September 23, 2010 PAPERS Workshop

Please check appropriate category:

- ❑ ***Pension Plan/Retirement Systems*** – No registration fee for any number of staff/trustees
- ❑ ***Associate Members*** (legal & investment service providers) – $400/person registration fee
- ❑ ***Affiliate Members*** (all other service providers) - $200/person registration fee

Individual's name ____

Representing (pension plan or company) ____

Mailing address ____

City, State, Zip ____

Telephone number (______) _________________ **E-mail address** ______________________

Complete, detach at dotted line and return no later than Sept. 1, 2010, with any payment due.

Make checks payable to: *PAPERS;* Mail to: *PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*
On-line payment via PayPal also available at: www.pa-pers.org

Conference rate overnight lodging ($144/single, $159/double): Contact The Desmond at 1-800-575-1776 or reservations@desmondgv.com no later than August 23, 2010. If sold out, contact PAPERS at 717-921-1957 for other nearby hotel options.