

Annual Meeting Results

Our Association's Annual Meeting of the Members was held on January 21, 2010, at 4:00 p.m. in Auditoriums A & B of the Saint Paul Public Schools District Headquarters.

Election For Three-Year Term



This year, Feryle Borgeson, John Kunz, and Eugene Waschbusch were re-elected for three-year terms to the Board of Trustees. Election results were:

Candidate	Number of Votes
Eugene Waschbusch	1,003
John Kunz	988
Feryle Borgeson	985

Other candidates receiving votes were Carol Adams, Lori Borgeson, Edward Davis, and James Paddock.

Report to the Membership

Secretary-Treasurer Eugene Waschbusch reported that total revenues for the fiscal year ending June 30, 2009 were \$47 million, while expenditures were about \$94 million. There was a net loss in operating revenues of approximately \$47 million. Total fund investment returns were negative, closing the fiscal year at (18.8%).

Mr. Waschbusch also reported that as of June 30, 2009, there were 3,940 active members, 80 members on leave of absence, 1,823 vested terminated members, 1,451 non-vested terminated members, and 2,933 pensioners, survivors and beneficiaries. Eighty-two additional members began drawing benefits over the previous year. The active member count decreased by 203 (including members on leave of absence).

Members heard a presentation by Tom Rose of BlackRock Institutional Trust Company.

BlackRock (formerly Barclays Global Investors) manages an indexed equities investment strategy for the SPTRFA. Mr. Rose answered members questions during and after his presentation.

Matt Bogenschultz, Trustee and Committee of Nine (C-9) Chair, reviewed with attendees the legislative priorities of the Committee, which focus on stable financing and benefit improvements.

Brian Rice, partner for the law firm Rice, Michels & Walther and lobbyist for the C-9, provided a recap of significant actions in the 2009 Session. He explained how market adversities and the State budget shortfall have staged a very difficult environment for public pension funds in the 2010 Session.

Next Stop: Retirement

Is your next stop retirement? If you have made the decision to retire at the end of this school year, or will be making your decision in the coming weeks, please contact our office as soon as possible to schedule a pension benefit counseling appointment.



Items to bring to your appointment are photocopies of: your birth certificate and if applicable your spouse's birth certificate, your marriage certificate, and any marriage dissolution (divorce) decree(s).

Even if you have already notified the SPPS of your intent to retire, **you must still contact the SPTRFA to obtain and complete the necessary retirement application documents to begin receiving your monthly pension benefit payments.**



Office Closed

The SPTRFA office will be closed on **May 31, 2010** in observance of Memorial Day.

Returns for Periods ending December 31, 2009	Last Qtr.	One Year	Five Years
Domestic Equity	5.9%	31.5%	1.9%
S&P 500 Index Benchmark	6.0%	26.5%	0.4%
Domestic Fixed Income	(0.1%)	5.5%	4.0%
BC Aggregate Index Benchmark	0.2%	5.9%	5.0%
International Equity	4.2%	38.1%	7.1%
MSCI EAFE Index Benchmark	2.2%	31.8%	3.5%
Real Estate	(0.8%)	(17.9%)	2.6%
NCREIF Total Index Benchmark	(2.1%)	(16.9%)	4.8%
Total Fund (Net of Fees)	3.6%	22.3%	4.1%
Composite Benchmark	3.1%	20.2%	3.5%

Investments

Volatility is the long-term investor's best friend. Institutional investors with long term goals try to optimize return and risk exposures that, under normal circumstances, will generate net returns at or above the total portfolio target. For our pension fund, that target is 8.5%.

Markets that exhibit wide swings in returns are seeking, but not at, equilibrium. When mis-pricing is broad and significant, many investors over-react to new information about the status of current prices relative to the "fair price" for any class of assets. If one allows these exaggerated reactions to put the portfolio significantly out of alignment, then over the long-term, volatility will erode away transitory gains.

When markets swing in uncorrelated fashion (bonds rise, stocks fall, etc.) disciplined investors react by rebalancing their portfolio holdings. We draw down accounts where returns are increasing ("sell high"), and move assets to those where returns are decreasing ("buy low"). On its surface, this may appear counter-productive. But the optimal long-run strategy is to stay as close as possible to the well-considered target allocations for the portfolio.

Portfolio target allocations were reviewed as part of an asset liability study completed for the Fund in early spring 2009. Based on the study, the Board decided to fund a global equity mandate. The Board hired Lazard Asset Management to

serve as a global equity investor for the Fund and allocated \$30 million to the new mandate. This necessitated moving assets to fund the new mandate and created an opportunity to correct imbalances in other accounts created by volatile markets in preceding quarters.

Last spring we also moved over \$120 million in assets to reset account balances to new target allocations. The benefit to the Fund was significant, generating an estimated \$20 million in returns that might not have been realized if imbalances had been allowed to persist.

Calling the timing of market peaks and valleys can produce high transitory gains, but with pension fund investors, fortune rarely favors the brave; staying on our more cautious charted course is the key to arriving at the full-funding destination.

Legislative Session 2010

Senator Sandra Pappas and Representative Erin Murphy are the authors of the bill containing the SPTRFA's 2010 legislative initiatives (SF2404/HF2951). The bill has three primary objectives:

- Increased state supplemental funding of \$5 million per year.
- Benefit equity for Coordinated Plan members by raising the annuity formula percentage from 1.7% to 1.9%.
- Update investment controls in statute to give the Board greater flexibility in deploying fund assets at the asset class, strategy and security holding levels.

This legislative agenda is definitely paddling against strong currents, with the State focusing on a \$1.2 billion shortfall next year, and other plans proposing benefit cuts for their members. Budget tightening will make it harder to find aid dollars, and talk of benefit reductions elsewhere may make the case for benefit parity for Saint Paul teachers seem less urgent. Fiscal issues and the recent market meltdown have shifted the focus of lawmakers to more immediate exigencies. The timing is inauspicious, but these proposals are compelling on their merits, and the Board feels duty-bound to continue pressing for consideration of each. Watch for updates via email and on our website.