

Idaho pension fund's fall could have been steeper

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The Public Employee Retirement System of Idaho's investment fund was down by 19.8 percent from the July 1 start of the state's fiscal year through Dec. 17, to about \$8.74 billion. The fund in the most recent one-month period reported a 4.1 percent gain.

PERSI's one-year loss of 24.9 percent compares to a 37.6 percent loss for the Russell 3000 equity index and a roughly 30 percent decline in the value of Harvard University's endowment. "I'm *relatively* extremely happy," Chief Investment Officer Bon Maynard said. PERSI's fund is simple, transparent, focused, and did not change fundamentally in 2008, he said. "Nothing has broken in this stressful time," he said. PERSI typically sees smaller variations from market averages compared to more "active" managers who aim to outperform markets year after year, Maynard said.

"We are willing to give up being a Goldman Sachs in order to avoid being a Bear Stearns or a Lehman," he said. "We can't afford to be a company that goes under." In many respects, our fund was built for these sorts of times," Maynard said. The trust is never put at risk or leveraged, he said.

PERSI now pays out slightly more in benefits than it receives in employee contributions due to the aging of the population, Maynard said. The investment fund contains the excess of previous contributions and investment returns over payouts, he said. "We have zero liquidity problems," he said.

The investment fund, since Maynard arrived in 1992, has stuck with an asset allocation of 55 percent U.S. equities, 15 percent international equities and 30 percent investment-grade, fixed-income investments. The fund must earn a long-term average annual "real" return - above the rate of inflation - of 3.5 percent to meet current and anticipated needs and 5 percent to add discretionary cost-of-living adjustments, he said. Long-term, average annual real returns include 1 to 2 percent for bonds and 6 to 7 percent for equities.

PERSI in 2008 did not change its core holdings, though it did bring the fixed-income percentage of total value down to about 32 percent, from 37 percent. The fund kept its holding of Treasury Inflation Protected Securities, guaranteed fixed-income instruments that pay a percentage above the inflation rate. "TIPs" recently increased in value, and represented 12 percent of PERSI's total portfolio value in mid-December, Maynard said.

A dollar invested 15 years ago is now worth \$3.07 in equities, \$2.81 in bonds, \$2.34 in international equities and \$3.43 in PERSI, he said. PERSI in 2008 did not get involved in hedge funds, co-mingled funds, securities lending or leverage strategies.

Maynard said the current market-wide fear of deflation could be replaced by inflation eventually if recent fiscal-stimulus moves and economic-stimulus proposals gain traction. PERSI will rebalance its portfolio to the 55-15-30 percent-of-value model as needed, he said.