



# PENSION OBSERVER

THE OFFICIAL PUBLICATION OF THE TEXAS ASSOCIATION OF PUBLIC EMPLOYEE RETIREMENT SYSTEMS

## LDI: Exploring Common Misperceptions

By Tim Stidham

**L**iability Driven Investing (LDI) is a hot topic in the defined benefit pension market. Numerous conferences, meetings, and papers have investment consultants, accounting and actuarial firms, and investment managers all contributing various perspectives. A close look at certain perceptions of LDI issues can provide helpful clarification

### LDI is not a significant asset reallocation.

A common belief, or assumption, seems to be that LDI means a significant asset

reallocation away from equities towards fixed income. This perception is an extreme example of an LDI strategy, but not a typical or realistic strategy for most plans. Only a well funded plan with a very low risk tolerance

*In general, today's environment utilizes actuarial pension return assumptions of about 8%, and long-term fixed income yields of about 5%.*

would be a logical candidate for this type of allocation structure. An example might be a frozen plan that is strongly funded and where the object of minimizing risk ranks much higher than return generation.

These generalizations are dependent on the economic and financial market and may

*(Continued on page 7)*

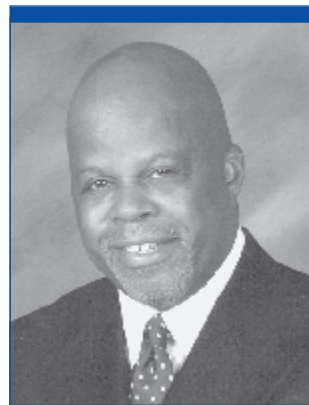
## Investors Seek Access to Commodities Markets

By Obie McKenzie

**I**nvestors increasingly are showing interest in the potential benefits that commodities exposure can provide—and many believe with good reason. Commodities historically have offered returns superior to those of other broad-based asset classes (see chart on page 9) and have experienced low to negative correlations with both stocks and bonds. Exposure to commodities also offers the potential to enhance portfolio returns by diversifying risk, and this asset class is often used as a hedge against both inflation and event risk. Further, the current macroeconomic rationale for investing in commodities is strong, as demand for commodities continues to expand beyond developed nations to include emerging industrial powers such as China and India.

Investors can gain exposure to commodities through a broad array of investments.

That said, direct physical ownership of



commodities (barrels of oil or bars of gold, for example) is usually not a feasible option for most investors, due to the substantial acquisition, storage,

administrative and maintenance costs. Also challenging for most investors is the purchase of commodity futures contracts, given the need to actively “roll” these positions. For most investors, an indirect approach to commodity exposure is best.

Some of the more popular options to gain such exposure are described on page 9.

*(Continued on page 9)*

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## WASHINGTON OUTLOOK

By Matt Aukofer

### SEC's Regulation of 'Soft Dollar' Commissions Helps Expose Hedge Funds

**A** new era of transparency looms for hedge funds and broker-dealers. The Securities and Exchange Commission's (SEC) new soft-dollar directive came into effect Jan. 24 after a six-month grace period. While it doesn't directly affect hedge funds, it does affect the banks that do their trading and securities lending. The directive will bring hedge fund trading and other practices into compliance with new guidance.

Specifically, the SEC is bringing into compliance "soft dollar" trading commissions and other practices. The SEC is likely to put pressure on prime brokers to ensure that the \$1 trillion hedge fund industry complies with its soft dollar rules.

The SEC defines soft dollar practices as arrangements under which products or services other than the execution of securities transactions are obtained by an adviser from a broker-dealer in exchange for the direction provided by the adviser to the broker-dealer. An individual or firm must exercise "investment discretion" over an account, as defined in Section 3(a)(35)

of the Exchange Act, in order to use client commissions to obtain research under Section 28(e) of the act.

A large number of public pension funds and institutions allocate a significant part of their assets to alternative assets such as hedge funds.

"The soft dollar rules will be a back door method for the SEC to attempt to audit hedge fund activities," says Richard S. Heller, a partner in the investment management practice at Thompson Hine LLP in New York. "This area of the securities industry has operated in a gray area for more than 20 years. All of that is about to change."

While hedge funds are not required to register with the SEC, the new rules that govern how brokers use their commissions

are designed to prevent abuses, such as payments for meals, rent, travel and other expenses not directly attributable to

investment decisions. The SEC came up with the new compliance guidelines after it found numerous soft dollar abuses when it scrutinized the trading records of a sampling of broker-dealers.

"Prime brokers are easily auditable," says Heller. "Abuses are going to be more readily discerned if they are the subject of inquiries.

Hedge funds are going to have to work with them to make sure that they are in compliance under the

new rules. A new era of fund and investment advisor transparency is dawning."

The SEC's new interpretation of Section 28(e), which covers the use of soft dollar arrangements, includes a three-step test for determining whether a product or service falls under the safe harbor provision of the rule.

To qualify under the new interpretation, research providers and brokers must first meet the soft dollar eligibility requirements, which include substantive advice, analysis and reports, but not mass-market publications like *The Wall Street Journal*, or tangible products and services, such as office equipment. Commissions must be reasonable in light of the services provided.

*The SEC came up with the new compliance guidelines after it found numerous soft dollar abuses when it scrutinized the trading records of a sampling of broker-dealers.*

(Continued on page 11)

## PRESIDENT'S CORNER

By Paul R. Brown

**T**he Texas Legislature has hit the ground running, with bills being filed that outnumber last session. Is it business as usual at the Capitol?

The Speaker's race was a little tense and we expected changes in committee assignments. We already anticipated a change in the chairmanship with the Pensions and

Investments Committee. Regardless of what may occur, TEXPERS will be in there working on behalf of its members. We have had strategy meetings to develop a coalition of support within the pension community

*I would encourage these grandstanders to make better use of their resources by working to safeguard the benefits and actuarial integrity of Texas public retirement systems.*

and among our allies, to insure that we will be working together for one common goal. It is through the exchange of ideas and information that we unite in order to present a solid voice on legislative issues.

However, there are times when we must come to the defense of our members. This session has brought about issues that question the authority of certain state agencies. We believe we have been diligent in educating, providing information and working to resolve issues that have been highlighted in the media.

It is disheartening when we are publicly used by individuals who grandstand at the expense of our members.

I would encourage these grandstanders to make better use of their resources by working to safeguard the benefits and actuarial integrity of Texas public retirement systems.

TEXPERS has dedicated itself to

(Continued on page 6)

# TEXAS STATE REPORT

By Matt Aukofer

## Bill Would Bar State Pension Funds from Investments with Ties to Darfur

**T**exas may join a growing number of states requiring their public employee pension funds to divest of their holdings in companies that do business in Sudan, where the government and its allied organizations have killed more than 400,000 people and displaced more than 2.5 million in the country's Darfur region.

The White House and Congress have declared the ongoing violence genocide, and the United Nations has labeled it the world's worst humanitarian disaster.

Sen. Rodney Ellis (D-Houston) and Rep. Corbin Van Arsdale (R-Houston) announced the filing of Senate Bill 247 and House Bill 667 on Jan. 24. The bipartisan legislation calls for the targeted divestment of state pension funds invested in companies doing business with the government of Sudan.

A related bill (HB 419), sponsored by Rep. Ruth Jones McClendon (D-San Antonio), would require the Employees Retirement System and the Teacher Retirement System to divest of certain investments related to Sudan. It is possible the bills may be consolidated.

The teachers' and employees' retirement funds had made no comment on the proposed legislation as of this writing, but pension fund officials in other states have decried similar efforts in their legislatures as expensive and ineffective.

For example, the Colorado Public Employees' Retirement Association (PERA) could be forced to sell as much as \$182 million worth of investments in companies that do business in Sudan if a bill banning such holdings is approved.

Meredith Williams, executive director of PERA, said if it is approved, the pension fund would spend more money to manage its portfolio and would have less influence over companies with investments in Sudan.

"If we sell our stuff, someone else is going to buy it," Williams told *The Denver Post*. "That's just the way it happens. The company is not going to go under. It's not going to be forced to curtail its operations.

They just have a different stockholder than Colorado PERA."

Such a divestment law also would force PERA to move about \$1.5 billion out of a portfolio of international stocks that it shares with other large investors.

"If we have to pull out of that, it would cost us in the neighborhood of \$4 million to transition out of that portfolio into a separate account," Williams told the Post.

Moreover, Colorado pension fund members also would have to pay about \$1 million more per year to manage the newly free-standing international fund owned solely by PERA, she added.

Similarly, the Iowa Public Employees' Retirement System (IPERS) said a proposed divestment law in that state could get the state sued. IPERS pointed out that the National Foreign Trade Council has sued the state of Illinois for divesting its public pension fund from Sudan, claiming it interferes with existing federal trade sanctions.

But other states, including California, Maine, New Jersey and Oregon, have passed laws preventing investment in corporations associated with the Sudanese government without problems.

Many state lawmakers say the divestment issue is a moral one and should not

be about money. Ellis and Van Arsdale, sponsors of the bill in Texas—the Stop the Darfur Genocide Act—hope their bill will put pressure on the Sudanese government to stop the genocide.

*Many state lawmakers say the divestment issue is a moral one and should not be about money. Ellis and Van Arsdale, sponsors of the bill in Texas—the Stop the Darfur Genocide Act—hope their bill will put pressure on the Sudanese government to stop the genocide.*

"Texas can't stand idle while thousands of innocent people are being systematically slaughtered," Van Arsdale said. "And we shouldn't be funding Texans' retirements by investing in companies who fuel a genocidal engine."

"It is clear the Sudanese government is largely unresponsive to recent political pressure," Ellis added. "It's time to turn up the economic pressure, and the pocketbook is a good pressure point.

Texas have said with a loud and clear voice that it is time for the State of Texas to take a strong stand against this genocide."

The U.S. Congress, President Bush and former President Clinton barred U.S. companies from doing business in Sudan, but some state government entities, universities and pension funds inadvertently could be helping to pay for some of the terrorism, mass murder and civilian rapes through their state employee pension fund investments in multinational corporations doing business in Sudan.

(Continued on page 4)

# Texas State Report

By Matt Aukofer  
(Continued from page 3)

Like many of the bills that are pending or have passed in other states, the Texas legislation utilizes a targeted divestment model focusing on companies that have a business relationship with the Sudanese government, impart minimal benefit to the underprivileged and have expressed no corporate responsibility policy regarding the situation in Sudan.

The targeted divestment approach is designed to coerce the Sudanese government to take action while minimizing harm to Sudanese civilians and investment returns.

The legislation is designed to affect only those companies

*Texas pension funds could have up to \$100 million invested in the Darfur region.*

that are egregiously profiteering through their ties to Sudan, while excluding companies involved in medicine, education,

general consumer goods, and agriculture.

The Sudan Divestment Task Force, a project of the Genocide Intervention Network, developed the model legislation that has been passed in six states and is under consideration in Texas and more than 20 other states.

“Texas has a unique opportunity to lead the nation and the world by divesting its state pension funds from companies that support and condone state-sponsored terrorism,” Adam Sterling, project director of the task force.

Under the legislation, public investment funds would have to identify their investments in any of 39 companies that the task force has listed as aiding state-sponsored terrorism, Sterling said. His task force compiled the list, which does not include any U.S. firms.

Identifying those companies, tracking them, notifying them and filing all the necessary paperwork would be the responsibility of each pension fund.

Texas pension funds could have up to \$100 million invested in the Darfur region, Sterling estimated.

For more information, visit: <<http://www.sudandivestment.org>>. 

Matt Aukofer is a TEXPERS contributing editor based in Washington, D.C.

## DIVESTMENT IN SUDAN

Actions Taken By U.S. States and Cities, January 2007

### STATE ACTION TAKEN

Arizona	Screening Requirement
California	Legislation Passed: Task Force Language
Colorado	Campaign Initiated
Connecticut	Legislation Passed: Non-Binding
Florida	Campaign Initiated
Georgia	Legislation Failed
Hawaii	Campaign Initiated
Illinois	Legislation Passed: Binding
Indiana	Campaign Initiated
Iowa	Campaign Initiated
Kansas	Campaign Initiated
Kentucky	Independent Pension Action
Louisiana	Anti-Terror Divestment
Maine	Legislation Passed: Binding
Maryland	Campaign Initiated
Massachusetts	Campaign Initiated
Michigan	Campaign Initiated
Missouri	Campaign Initiated
Nebraska	Campaign Initiated
New Jersey	Legislation Passed: Binding
New York	Campaign Initiated
North Carolina	Campaign Initiated
Ohio	Campaign Initiated
Oklahoma	Campaign Initiated
Oregon	Legislation Passed: Binding
Pennsylvania	Campaign Initiated
Rhode Island	Campaign Initiated
Texas	Campaign Initiated
Vermont	Campaign Initiated
Virginia	Campaign Initiated
Washington	Campaign Initiated
Wisconsin	Campaign Initiated

### CITIES ACTION TAKEN

Buffalo, NY	Campaign Initiated
Cambridge, MA	Campaign Initiated
District of Columbia	Campaign Initiated
Los Angeles, CA	Campaign Initiated
New Haven, CT	Sudan Investments Restricted
Newton, MA	Sudan Investments Restricted
Philadelphia, PA	Sudan Investments Restricted
Pittsburgh, PA	Campaign Initiated
Prospect, KY	Non-Binding Resolution
Providence, RI	Sudan Investments Restricted
San Francisco, CA	Sudan Investment Restricted

Source: Sudan Divestment Task Force, Jan. 14, 2007

# EXECUTIVE DIRECTOR'S COMMENTS

By Max L. Patterson

**D**uring January I attended the Government Finance Officers Association (GFOA) as an Advisory Member to the Committee on Retirement and Benefits Administration (CORBA). This committee addresses numerous issues affecting public pension plans and monitors related actions in Congress as well as publishing recommended practices on numerous subjects, i.e. Investment Policies, Directed Brokerage, Asset Allocation, Selecting Investment Advisors and many more. You can view these publications by going to “www.gfoa.org” then clicking on “Recommended Practices.” These are practices that are put together by pension professionals from across the country after much discussion and research. You can adopt, modify or just educate yourself on what other professionals working for public pension systems have put together on these issues.

CORBA also monitors the actions of the

Governmental Accounting Standards Board (GASB) which is the independent, not-for-profit organization formed in 1984 that establishes and improves financial accounting and reporting standards for state and local governments. Its seven members are drawn from the GASB constituency, including preparers and auditors of government financial statements, users of those statements, and members of the academic community. More information about the GASB can be found at its website at [www.gasb.org](http://www.gasb.org). Through

CORBA, GFOA will often comment on proposed guidelines (statements) during the comment period for new GASB statements.

At the beginning of each year (January or February), as Congress begins, CORBA meets in Washington D.C. In addition to the above

work CORBA tries to determine what direction Congress will take as it relates to public pensions. This year we heard from John

*Rep. Rangel has a long history of supporting local governments. We were reminded that it has been a long time since there has been a representative from a large urban city on the tax committee.*

Buckley, House Ways and Means Chief Tax Counsel. The new chair of this committee is Rep. Charles Rangel (D-NY). Rep. Rangel has a long history of supporting local governments. We were reminded that it has been a long time since there has been a representative from a large urban city on the tax committee. Mr. Buckley

stated that Social Security is in good shape over the short to mid-term time frame. At this writing, it is still too early to comment on Congressional priorities for 2007 until further responses to the President's budget proposal are in place.

## President's Corner

By Paul R. Brown

(Continued from page 2)

cooperating in every reasonable and proper way with other association/group executives, and to working for the advancement of pension funds.

On an issue of interest regarding the "HELPS Legislation" that was passed as part of the Pension Protection Act, we received notice that the IRS has issued a ruling. The ruling 2007-7, Section 845 of PPA 06, came out on January 12, 2007. The ruling states that widows would not be eligible for the deduction from taxable income. More important— and a problem— is the statement on "self insured." Medical plans are not eligible for this favorable tax treatment if they are self funded. This issue

is currently being addressed by our representatives in Washington, D.C. It is just a matter of time before the IRS makes a new ruling. That could take a while and may require Congressional Oversight Committee intervention.

The upcoming TEXPERS Annual Conference— March 18-21 in Austin— continues the changes that we believe will provide a much more educational program to our members.

The "New Trustee Workshop and Working Lunch" will be held at this conference.

Here is an opportunity to enhance your knowledge of investments. The entertainment venue

will be held at the Bob Bullock Texas State History Museum.

Please make sure that you schedule appointments with your elected officials prior to coming to Austin in March.

Lastly, let me thank in advance our sponsors, associate advisors, conference committee members and staff for their support and hard work.

*Please make sure that you schedule appointments with your elected officials prior to coming to Austin in March.*

Be safe, see you in Austin. 🇺🇸

## LDI: Exploring Common Misperceptions

By Tim Stidham

(Continued from page 1)

change along with the financial markets. In general, today's environment utilizes actuarial pension return assumptions of about 8%, and long-term fixed income yields of about 5%. With a 3% gap between the two, it would be extremely expensive for most plans to adopt a high fixed income allocation. If you believe in a positive and historically typical equity risk premium, reallocating towards fixed income will decrease returns and ultimately make achieving prescribed employee pension benefits more expensive and less sustainable.

### LDI is not a single solution.

Liability Driven Investing is not a product or single solution. Separate accounts or commingled products from investment management firms may be useful in implementing a cost effective LDI strategy, but they are not themselves LDI. Each plan and plan sponsor has unique financial and non-financial characteristics. While there may be some common solutions for a "typical" plan in a given market environment, a one-size-fits-all mentality is unwise.

It is interesting to compare the investment management practices of insurance companies with those of pension funds. Insurers have widely practiced LDI since interest rates became volatile in the 1970s; they just call it Asset/Liability Management or ALM. Although very significant differences are expected to remain between investment strategies in the two industries, there is some convergence.

An insurer's primary investment objective is managing the company's surplus and meeting income objectives. While an insurer may periodically benchmark asset allocation or investment performance to a peer group, peer analysis is not a primary objective the way it has been with pension funds. Simply stated, insurers manage assets to meet their unique objectives, not to outperform a peer group of competitors. It can easily be argued that pension funds have been able to take a longer-term view and have therefore benefited from higher equity allocations. The question is: will the long-term view of pension funds be acceptable given legislative funding requirement changes and new corporate accounting standards?

It is likely that pension managers will increasingly be required to control risk within certain parameters in order to limit the impact on the financial statements, especially when pension volatility hits the income statements. These risk constraints may be more limiting than historic practices, potentially forcing shorter-term investment horizons.

### So what is LDI?

As previously noted, LDI is a change in the framework of pension risk management. The change is from a focus on controlling the volatility of plan assets to an acceptable level, to a focus on controlling the volatility of the funded status. While this seems simple in concept, it is different from the historic and current norms. In some cases, decreasing surplus volatility will increase asset volatility, the primary example being an extension of

fixed income asset duration or adding duration to the entire asset base. Some will say, "if we extend duration now we are just locking-in low interest rates." While the timing of any strategy change needs to be carefully considered, maintaining a traditional 25-40% fixed-income allocation with duration of 4-5 years is making an assumption that interest rates will rise. This is due to a typical plan's liabilities being much more interest sensitive than the assets. Positioning assets for rising interest rates is not unsound; the plan must simply desire the positioning and be comfortable with the assumed risk. However, this stance should be recognized as a deliberate risk position, and acknowledge that greater than average asset duration is a more risk-neutral position. Also, more tactically, while interest rates are low compared to the last 25 years, an inverted yield curve can often lead to lower interest rates.

### What makes sense in an LDI framework?

Again, it is important to stress that LDI is a concept that must be applied to the specifics of a plan and plan sponsor. Specifics include risk tolerance, funded status, ease or difficulty in obtaining additional contributions, liability


structure including whether a plan is frozen or still open to new employees or somewhere in between, and numerous other characteristics.

### Common themes for a "typical" plan

For plans with a long liability, say duration of 10 years or greater, there tend to be some common themes. Equity allocation tends to be 50% or greater, which is a concentrated risk that is not necessarily correlated with the liabilities. Also, as already

noted, the liabilities tend to have much greater interest rate sensitivity than the assets. The first point is best addressed through greater asset diversification such as real estate and alternatives, though implementation and valuation issues make these areas a challenge. The second point is often best addressed through a duration extension using either longer bond portfo-

lios or a derivative overlay strategy. But this comes with the trade-off of increasing asset volatility in order to reduce surplus volatility.

In conclusion, Liability Driven Investing involves the coordination of plan assets with plan liabilities; it is simply a redefinition of the risk management framework. Strategies should be tailored to specific plan needs, including interest rate and inflation sensitivity, plan design features, nature of the company, and its workforce. As an alternative to just a total return oriented approach, plan sponsors should consider liability based objectives like: protecting downside risk of plan funded status ratio, minimizing volatility of ERISA contribution requirements, stabilizing pension expense on the income statement and reducing balance sheet volatility. LDI adds a new dimension to traditional asset-based risk/return measures. But when properly implemented, LDI incorporates both alpha producing and risk mitigating strategies custom tailored to the sponsor's objectives. And when looked at using various specific criteria, it will prove to be a valuable thought process. 

Tim Stidham is Senior Vice President at Hartford Investment Management Company in Hartford, CT.

*The question is: will the long-term view of pension funds be acceptable given legislative funding requirement changes and new corporate accounting standards?*

# Investors Seek Access to Commodities Markets

By Obie McKenzie  
(Continued from page 1)

## Exchange Traded Funds (ETFs)

Commodity-based exchange traded funds give investors the opportunity to invest in certain physical commodities and commodity futures without the inconveniences of direct ownership. An ETF seeks to track the performance of either a single commodity, a basket of commodities, a single commodity future or a basket of commodity futures. ETF investors do not have to manage the physical commodities or futures positions, and are able to take both long and short positions. These securities trade and settle on regulated exchanges, similar to equities, and are purchased through a broker/dealer.

## Commodity Futures Indices

A commodity futures index, such as the Goldman Sachs Commodity Index (GSCI) or the

Dow Jones-AIG Commodity Index (DJ-AIG), represents a weighted basket of short-

maturity commodity future contracts that are rolled as they mature. Passive exposure to broad commodities indices produces the beta of the commodities futures, while providing diversification, protection against inflation and potential return benefits. As investors become more comfortable with an allocation to commodities, they often employ other techniques in an effort to generate alpha, such as allocating to sub-indices of the broader index, actively managing a long-only commodities portfolio or employing long/short total return strategies. Another way investors can gain exposure to the commodities sector is


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through commodity-linked notes that are designed to provide returns tied to a specific underlying commodities index.

## Commodity-Related Equities

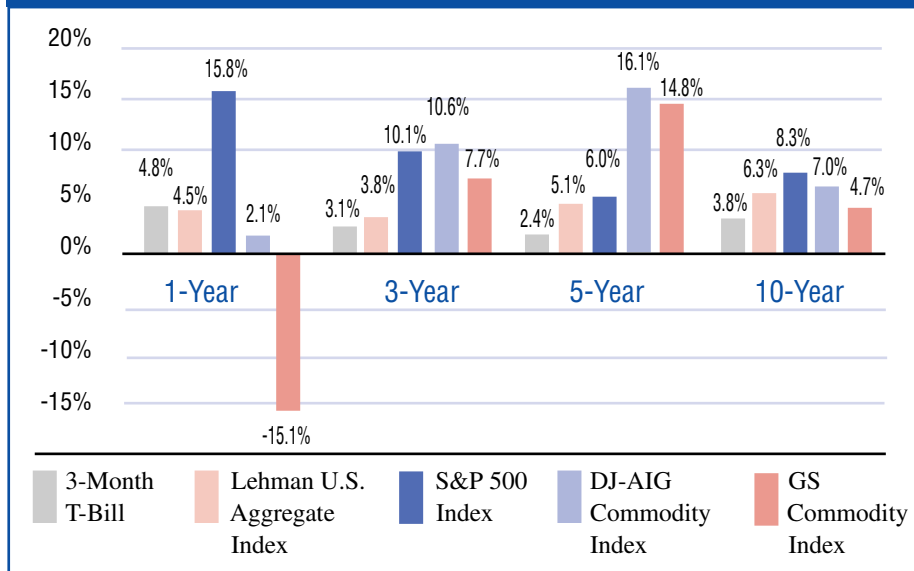
Direct equity investment in commodity-related companies is also a way to invest in the commodities sector. This approach enables investors to seek alpha through active management while also obtaining equity sector beta. Investment in the equity of commodity-related companies may also serve as a hedge against inflation. It should be noted, however, that stocks of commodity-dependent companies generally are positively correlated to the broad stock markets as well as to the corresponding sub-sectors of the futures indices, although the degree of correlation varies.

As equity markets tend to be less efficient than commodities markets, they may misprice commodity market movements in the short term, creating opportunities to generate superior returns by taking advantage of value dislocations between the price of certain commodity-related equities and the price of their associated commodities. Further, certain commodity-related equities can provide exposure to commodities that are not readily available for investment through an index or ETF; for example, coal or diamonds via a mining stock.

With investors' increasing awareness of the benefits of investing in commodities, and the continuing search for alpha outside traditional asset classes, it is likely the interest in commodities investing will only grow. Commodities investment does entail significant risk, and each area has its own set of risk factors to consider. However, active managers with experience and successful track records in this space should be well positioned to help clients understand risks and develop an appropriate allocation to this asset class. 

Obie McKenzie is Managing Director at BlackRock, Inc. in New York, New York.

## Annualized Total Returns



• As of December 29, 2006 • Source: Bloomberg and Lehman Brothers

- Past performance is no guarantee of future results. Index performance assumes reinvestment of distributions. It is not possible to invest directly in an index.
- The Standard & Poor's 500 Index (S&P 500®) is a broad-based index, the performance of which is based on the performance of 500 widely held common stocks chosen for market size, liquidity and industry group presentation.
- The Lehman Brothers U.S. Aggregate Index represents the general bond market performance and is a market value-weighted index that tracks the daily price, coupon, pay-downs and total return performance of fixed rate, publicly-placed, dollar-denominated and non-convertible investment grade debt issues with at least \$200 million per amount outstanding and with at least one year to final maturity.
- The Goldman Sachs Commodity Index represents a broad spectrum of futures contracts on 24 commodities, and is rebalanced annually. The commodities are weighted in the index according to their average worldwide production in the last five years of available data.
- The Dow Jones-AIG Commodity Index is a diversified benchmark comprised of futures contracts on 19 physical commodities, and its composition is set annually. The commodities are weighted primarily by market liquidity and, to a lesser extent, by production data.

## Annual Conference Update: Focus On How to Achieve Double-Digit Returns

The TEXPERS Eighteenth Annual Conference is just around the corner with revitalized programming, important learning opportunities and expanded networking functions. You'll enjoy an outstanding educational experience that will help you add value to your plan and security for its members. There's still time to register, so don't miss it.

The core theme—How to Achieve Double-Digit Returns—is based on member-driven topics that approach the market with a forward-looking discipline rather than focusing exclusively on past performance. Other topics address international, emerging and U.S. markets and how these markets interact. Will large cap outperform small cap? Is anyone ready to make a hard commitment? And much more.

### New Trustee Workshop Features

#### Fixed Income Topics: Monday, March 19

An intense three-hour workshop for trustees opens with clarification of pertinent terminology and phrasing. It is an interactive format designed to ensure that attendees will leave with an enhanced ability to accurately assess the full content of quarterly and annual performance reports—no matter how that content is presented. The interactive segment encourages participants' discussion and a question/answer session. If you are new or ready for a refresher

course, you will find this workshop a valuable experience.

Lunch will be provided for attendees. To reserve your place, call or email TEXPERS.

### Members Reception and Dinner

This is a don't miss opportunity to network with your colleagues, catch up on what other plans are doing and enjoy a relaxed evening hosted by the TEXPERS Investment Professionals. We'll gather at the Bob Bullock Texas State History Museum for a cocktail reception and dinner with entertainment by Mariachi Rebeldes del Sur of Austin's Travis High School. Guests are also invited to browse this wonderful museum's exhibits before and after dinner.

The success of the TEXPERS Members Dinner at the 2006 Summer Educational Forum, reminded us how important it is to set aside an evening for networking. Visiting together and sharing plan experiences helps all of us stay current with the larger picture of Texas pension funds' changing environment and supports the teamwork we need to succeed for our plan members.

These are just a sampling of Conference events. Many other excit-

ing activities have been lined up as well. Visit [www.texpers.org](http://www.texpers.org) for more information; then register while you're there or mail/fax your completed registration form to the TEXPERS office.

We'll be looking for you! 🇺🇸

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[www.texpers.org](http://www.texpers.org)

## MARK YOUR CALENDARS

### Upcoming Conferences

#### TEXPERS 18th Annual Conference

March 18 - 21, 2007;  
Austin, TX  
Sheraton Austin Hotel  
(See page one for details)

#### 2007 Summer Educational Forum

August 19 - 20, 2007  
San Antonio, TX  
Westin Riverwalk Hotel

#### TEXPERS 19th Annual Conference

March 16 - 19, 2008;  
Fort Worth, TX  
Renaissance Worthington Hotel

#### 2008 Summer Educational Forum

August 17 - 18, 2008  
San Antonio, TX  
Westin Riverwalk Hotel

#### TEXPERS 20th Annual Conference

March 30 - April 2, 2009;  
Austin, TX  
Sheraton Austin Hotel

#### TEXPERS 21st Annual Conference

April 11 - 14, 2010;  
Galveston, TX  
Moody Gardens Hotel

#### TEXPERS 22nd Annual Conference

March 25 - 30, 2011;  
Austin, TX  
Sheraton Austin Hotel

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## Washington Outlook

By Matt Aukofer  
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"The enormous capital committed to hedge funds continues to grow," says Heller. "The SEC said that it would not oppose the Goldstein decision, which prevents it from directly regulating funds, but that won't prevent the commission from exploring other ways to regulate the industry. Putting pressure on broker-dealers is just the beginning. A revised definition of who in fact is an accredited investor is also on the table."

The Goldstein decision voided the SEC's registration rule, which allowed hedge funds to, for the most part, skirt the regulators' watchful eye.

The agency is trying to crack down on abuses in how brokers that cater to hedge funds and other institutions, otherwise known as prime brokers, spend the commission dollars they charge funds for trade execution and other services.

Gone will be tickets to luxury arena sky boxes, lavish dinners and golf junkets, plus more mundane items like office furniture, rent and Internet services. Brokers also won't be able to pass along fees for stock loan and margin services, record-keeping and long-term maintenance of securities positions.

Morgan Stanley, Goldman Sachs and Bear Stearns are the biggest in the prime brokerage business, but several other

banks are trying to play catch up, including UBS, Jefferies and Credit Suisse. Heller, who specializes in "blue-sky" law, says several prime brokers are preparing for the rules by setting up committees that will review client trading activities on a regular basis.

In a related area, the SEC also is proposing new rules designed to provide additional investor protections that would affect pooled investment vehicles, including hedge funds. First, the SEC is proposing a rule that would prohibit advisers to pooled investment vehicles from making false or misleading statements or otherwise defrauding investors or prospective investors in those pooled investment vehicles. Second, the SEC is proposing two rules that would revise the definition of "accredited investor." Comments

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are due March 9. For more SEC information, visit:  
<<http://www.sec.gov/rules/proposed/2006/33-8766fr.pdf>>

For other information, visit  
<<http://www.ThompsonHine.com>>  
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