

MICHAEL TRAVAGLINI ADDRESSES PERAC

PRIM Executive Director Discusses Governance Charters and Policies

Michael Travaglini, Executive Director of the Pension Reserves Investment Management Board (PRIM), addressed the Public Employee Retirement Administration Commission (PERAC) on Wednesday, February 23, 2005. His topic: PRIM's impressive new "Board Governance Charters and Policies". Mr. Travaglini noted that Dr. John Por of the Cortex Corporation assisted PRIM in developing their corporate charter. (Note: Dr. Por made a presentation to PERAC's Corporate Governance Forum in June 2004 at Holy Cross College.)

Mr. Travaglini explained that Cortex's charge was to analyze PRIM's decision-making processes, commit them to paper, and develop a document that all could agree upon. The goal was to develop a consensus around decision-making. As a result of this process, the

roles and responsibilities of the Board, its committees, staff, and Executive Director were clearly defined and a formal orientation program for new PRIM Board Members was developed.

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PRIM Executive Director Michael Travaglini (left) and PERAC Chairman Domenic J. F. Russo

HENRY G. BRAUER APPOINTED PERAC COMMISSIONER



Commissioner Henry G. Brauer (left) and PERAC Chairman Domenic J. F. Russo

Governor Mitt Romney has appointed Mr. Henry G. Brauer to serve on the Public Employee Retirement Administration Commission. Mr. Brauer holds the investment professional seat designated in Chapter 7, Section 49 (a) as "qualified by having training and experience in the investment of funds as a result of having been principally employed in such occupation for a period of at least ten years."

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Public Employee Retirement Administration Commission

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Chairman
- The Honorable A. Joseph DeNucci
*Auditor of the Commonwealth
Vice Chairman*
- Henry G. Brauer
Investment Professional
- Kenneth J. Donnelly
*Lieutenant
Lexington Fire Department*
- Eric Kriss
*Secretary
Executive Office of Administration
and Finance*
- James M. Machado
*Sergeant
Fall River Police Department*
- Donald R. Marquis
*Former Town Manager
Arlington*
- Joseph E. Connarton
Executive Director



MICHAEL TRAVAGLINI (CONT.)

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Mr. Travaglini graciously offered to serve as a resource for retirement boards that wish to explore governance issues in more detail.

PERAC Commissioners expressed a desire to continue to bring the importance of sound governance principles and procedures to the retirement boards.

The Commission voted unanimously to refer this matter to its Administrative Sub-Committee for further deliberation of the next steps in PERAC's governance initiative.

Chairman Domenic J. F. Russo thanked Mr. Travaglini on behalf of the Commission and staff for accepting their invitation to speak about PRIM's experience in developing its new **"Board Governance Charters and Policies"**.

HENRY G. BRAUER APPOINTED PERAC COMMISSIONER (CONT.)

(From page 1)

Mr. Brauer was with TA Associates Realty for 14 years, the last 12 as a partner. He served as Director of Asset Management since 2001.

Mr. Brauer also was the portfolio manager for TA's two largest separate accounts, Los Angeles County Employees Retirement Association (LACERA) and Massachusetts Pension Reserves Investment Management Board (PRIM). The combined value of these two portfolios was \$1.2 billion.

Prior to joining TA Associates Realty, Mr. Brauer was an asset manager at John Hancock Properties. He managed a diverse portfolio of office, industrial, retail and multi-family properties. Previously, he was a leasing broker at Spaulding & Slye, a national real estate and brokerage firm.

Mr. Brauer received a B.A. in History from Tufts University and an M.S. from the Massachusetts Institute of Technology

Real Estate Development program.

PERAC's Executive Director Joseph E. Connarton welcomed Commissioner Brauer as he and the staff congratulated the Commissioner on his appointment. He noted that he looks forward to working with Commissioner Brauer as PERAC confronts the major pension issues facing the Commission in 2005.

"Governor Mitt Romney has appointed Mr. Henry G. Brauer to serve on the Public Employee Retirement Administration Commission."

COMPARISON OF 2002 AND 2003 LOCAL EARLY RETIREMENT INCENTIVE (ERI) PROGRAMS

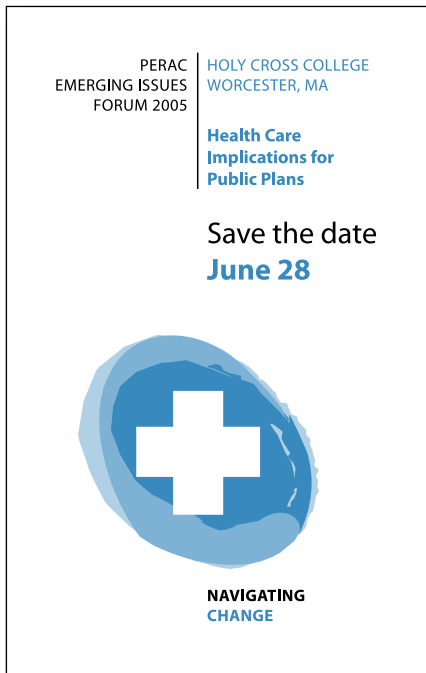
Local governmental units had the ability to adopt ERI programs in both 2002 and 2003. A comparison of the composite results is outlined below.

	2002 ERI	2003 ERI
NUMBER OF GOVERNMENTAL UNITS ADOPTED	285	164
NUMBER RETIRED	3,318	1,477
INCREASE IN ACCRUED LIABILITY (AL)	\$230.5 million	\$105.9 million
AVERAGE INCREASE IN AL PER MEMBER	\$69,500	\$71,700

As would be expected, more units adopted the ERI the first time it was offered. However, it was somewhat surprising that 109 of the 285 units who adopted the ERI in 2002, also chose to adopt the ERI in 2003.

ANNOUNCING PERAC'S 2005 EMERGING ISSUES FORUM

On June 28, 2005, PERAC will host its second annual Emerging Issues Forum at the College of the Holy Cross in Worcester, Massachusetts. Many attended the first forum last year where corporate governance and public investments issues were addressed. At this year's forum, the focus will be on developments in health care and Statement 45, a new GASB reporting requirement regarding post retirement benefits. Please plan on being our guest at the forum and complimentary luncheon buffet. A registration packet will be mailed to you in mid-May.



DIVERSIFICATION IN INVESTMENTS

One of the keys to consistent long-term investment performance is diversification, not only among asset classes but also within asset classes. PERAC is in the process of compiling performance data from all of the Commonwealth's public retirement systems, but it is already apparent that systems with good portfolio diversification generally had strong returns in 2004.

The 2004 performance of the PRIT Fund is a prime example. Like all systems, the PRIT Fund invests in domestic stocks and bonds, but these asset classes were not the main drivers of the Fund's performance for the year. PRIT's domestic equity portfolio, comprising 35.1% of the total fund, delivered a strong return of 12.83%, but this asset class ranked only seventh best among the Fund's distinct portfolios. Real estate (28.55% return), emerging market equity (25.08%), alternative investments (21.55%), international equity (19.66%), emerging market debt (16.36%), and timber (13.64%) all performed better.

The Fund's core fixed income return of 4.48% modestly exceeded its benchmark but was actually PRIT's lowest performing asset class, trailing high yield debt (10.65%), Treasury Inflation-Protected Securities (8.48%), and Absolute Return (hedge funds), which had partial year performance of 4.88%. Some of the non-traditional asset classes in which PRIT invests are generally accessible only to funds having substantial asset size and staff capability.

Besides having exposure to numerous asset classes, many systems, including the PRIT Fund, also benefited from diversification within asset classes. In domestic equities, these funds invest in small and midcap as well as large cap stocks and in both growth and value styles. In real estate, they invest in publicly-traded REITs as well as in privately-managed properties or partnerships.

Any retirement boards interested in additional information should contact either their investment consultant or the PERAC Investment Unit.

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