

# NCCMP Roundtable

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## Investing When Nothing Seems Normal

**October 2009**

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*“Advancing Your Investments”*



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# Framework for Moving Forward

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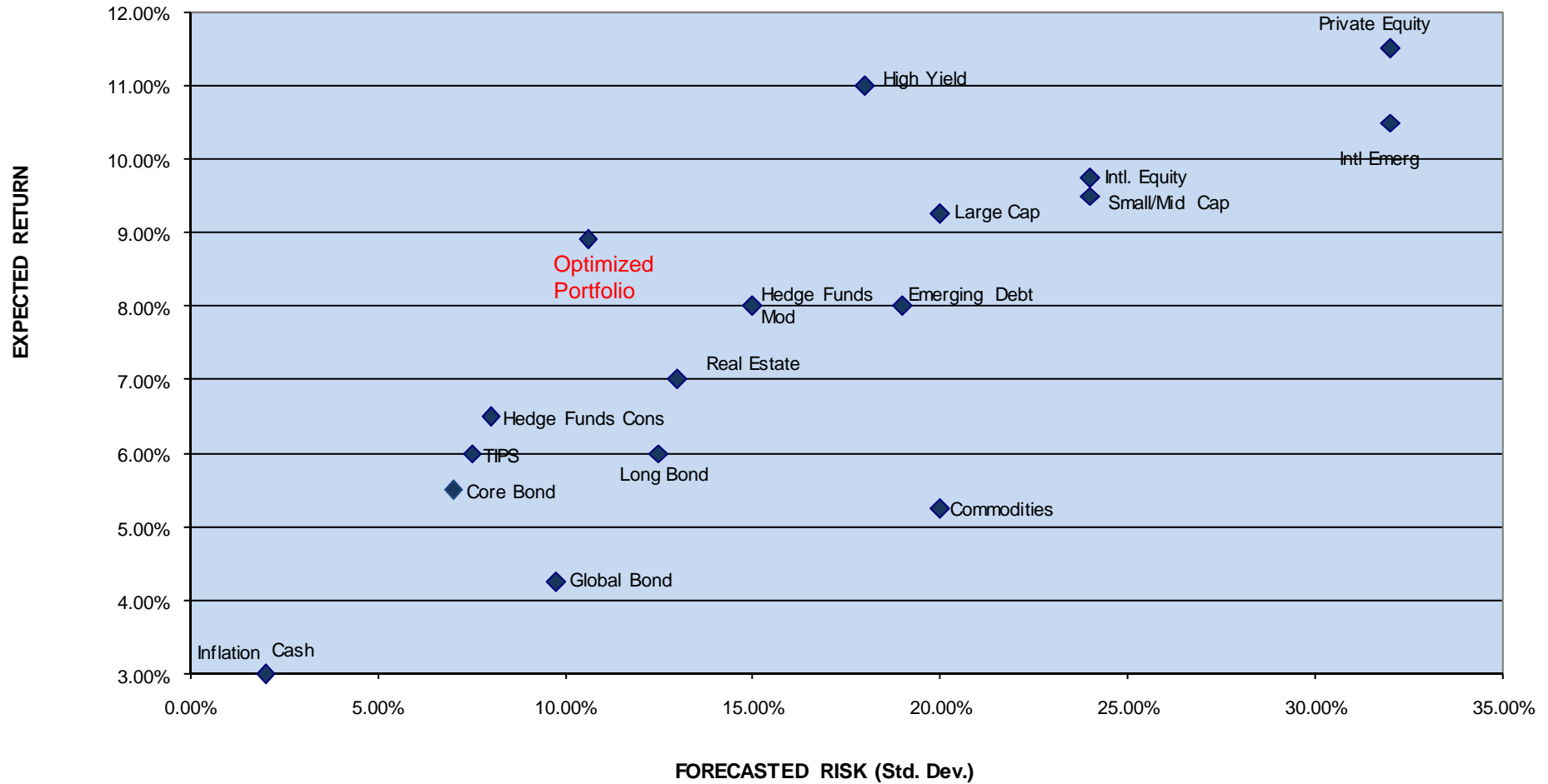
1. Remember your goals
2. Back to the basics
3. Understand the details
4. Think about what is next
5. Be flexible

# Review the Goals

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- Confirm Definitions and Objectives
  - How do we define risk?
    - Falling short of Actuarial Rate
    - Keeping up with peers
    - Losing money
  - What is the time period for measurement?
    - Duration of liabilities—15+ years
    - Economic Cycle—3-5 years
    - Annual PPA filing
  - How do we build portfolios to meet objectives?
    - Avoid risk...forego long term return...Plan must make due with 5% return...or less
    - Blend risk...find balance of risk and return
- Maintain Discipline
  - Rebalance
  - Manage liquidity
  - Diversify

# 2009 (5 to 7 Year Projections)

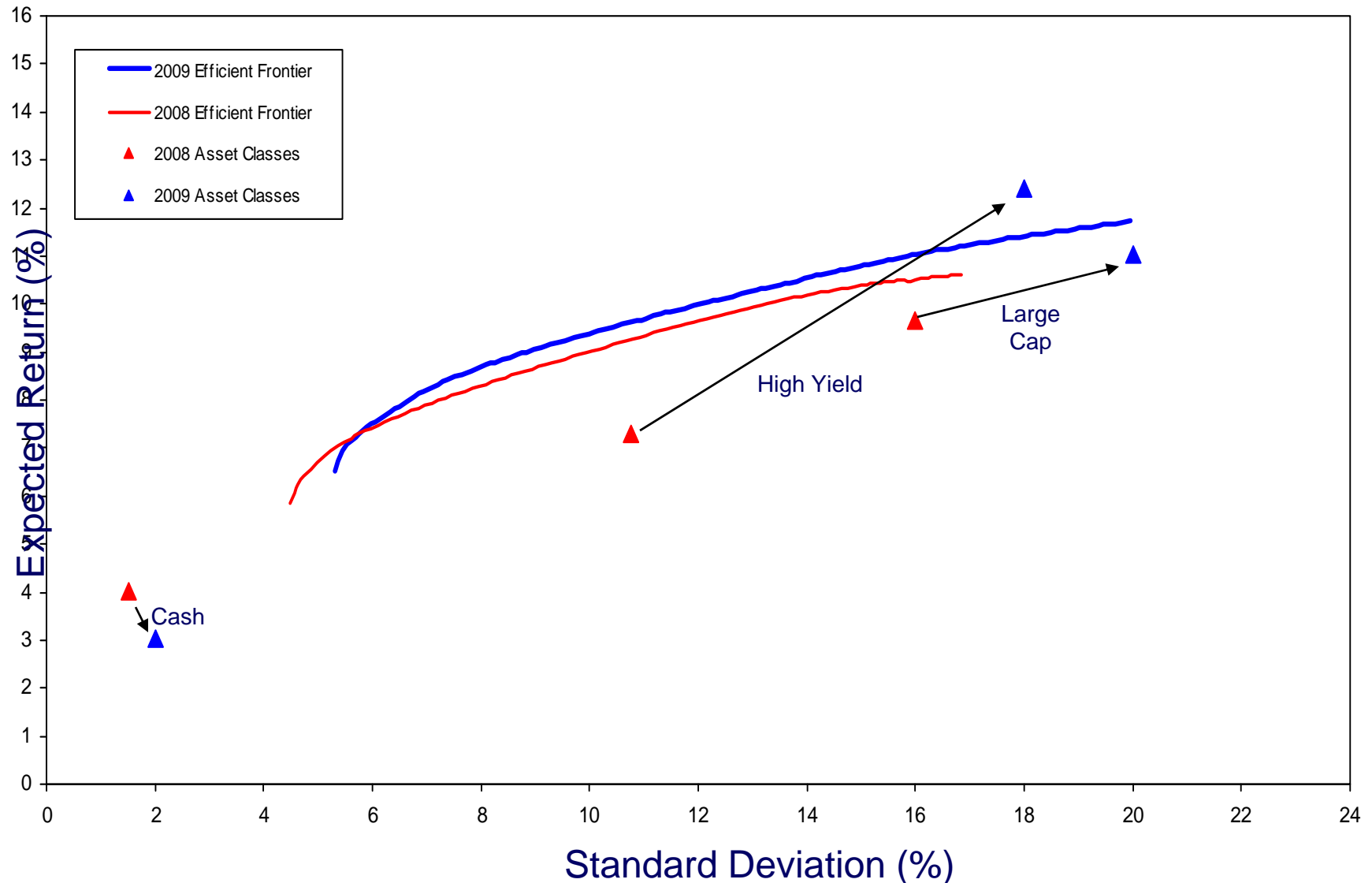


# Past Performance is no Indication/Guarantee of Future Results

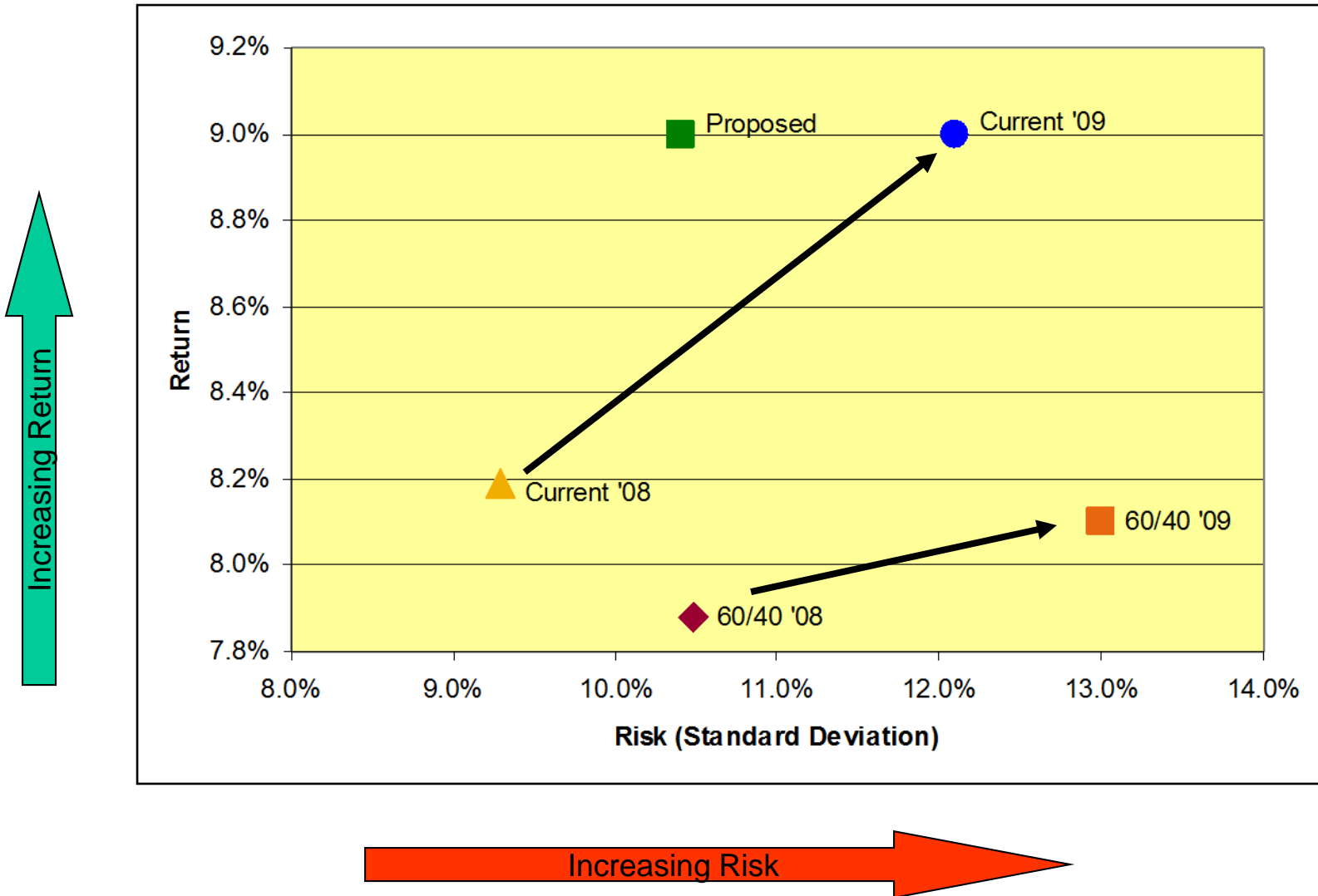
- **Manager Selection**
  - Those with the highest numbers in 2008 may have the lowest in 2009
  - Understand manager decisions and attribution...where did performance come from?
    - Sector bet—commodities, financials (Repeatable?)
    - Process—understanding of Government program effects (Insightful?)
    - Just plain lucky
  - Things that broke the worst...will be fixed
  - Things that didn't break...will break eventually
- **Consider Future Return Drivers**
  - Government with equity/debt stake
  - Inflation
  - Volatility
  - Leverage
- **Difficult to Adapt with Institutional Governance Structures**

# 2008 vs. 2009: Assumptions Drive Change

Most asset classes are expected to have modestly higher returns and disproportionately higher volatility.



# Changing Assumptions...Changing Expectations



# Summary—What Should Plans Do Now?

- **Be Opportunistic:**
  - Many asset classes were effected by technical factors, flight to quality and reduction of traditional liquidity sources.
    - Mezzanine Debt
    - High Yield
    - CMBS
    - Emerging Market Debt
    - Distressed Investments
    - DIP Loans
- **Be More Nimble:**
  - Plans can't move around asset allocations tactically because they don't meet frequently enough and it is too much responsibility; Hire managers that can be nimble and take advantage of opportunities and volatility:
    - GTAA and Risk Parity
    - Hedge Funds
    - Expanded guidelines for Fixed and Equity managers

# What Should Plans Do Now? (continued)

- **Be Cautious:**

- Volatility in the market continues to be high
- Default rates are going up and a recessionary environment will exacerbate that situation
- Equity market rebound is great, but not necessarily a recovery; fundamentals do not suggest prolonged upward movement until economic recovery is on better footing
- Inflationary environment; something to be aware of going forward
- Monitor Plan liquidity

Asset allocation adjustments that reflect opportunities, nimbleness and risks need to be considered. Goals can be met without a reliance on long only public equities dominating the portfolio and the risks in the portfolio.