



Calendar Year 2013 – Investment Review

St Paul Teachers' Retirement Fund portfolio edged above \$1 billion in assets by year's end, marking a return to that level reached just ahead of the global financial crisis back in 2008-09. For the calendar year, the portfolio produced a **19.6% return**, well ahead of its 8% target rate. The strong year placed the three and five year returns into a strong position as well, up 10.4% and 13.5% respectively. Assets were \$1.010 billion as of 12/31. The portfolio's 2013 growth easily outperformed its benchmark, which recorded a 17.1% return for the period.

The SPTRFA Board of Trustees has systematically been adjusting the asset alignment toward a more diversified and risk averse structure. This has resulted in a gradually lowering in overall volatility, measured by the portfolio's standard deviation. However, it is still slightly above the desired benchmark level. Global equities have a target allocation of 55% with fixed income at 20%. Currently equities are still above target levels with bonds just below its allocation. One of the Board's important steps was to timely remove its exposure to the passive fixed income indexed funds ahead of expected higher interest rates. Bonds overall acted very poorly in 2013, its first negative year in the 21st Century, but the shift into active management and a broadening of the manager mandates to more unconstrained and globally portfolios cushioned the negative returns from that sector.

Equities were the year's standout, generating as a portfolio group 36% return for the twelve months. Value managers slightly edged growth strategies, while smaller cap managers outdistanced larger capitalization mandates. Wellington Management, a mid-cap manager which had struggled 24 months ago but to which the Board remained committed and actually increased its allocation when values were lower, rewarded the Fund with a nearly 50% return for 2013. Global market performances trailed the US centric holdings but still generated respectable 20+% returns.

Among the Alternative and Inflation Hedged asset classes, returns were relatively muted, due primarily to the continued low inflationary environment. Real estate holdings rose high single digits, while Treasury Inflation Protected Securities (TIPS) lost ground. Two newly added portfolios during 2013, hi-yield bonds and an allocation to oil and gas Master Limited Partnerships (MLPs) were solid performers for their partial year efforts. The Board was very active adding eight new manager mandates in 2013.

Looking ahead, a remaining asset area where the Board's attention is focused would be a planned 5% commitment to hedge funds. The approach will be a customized blending of varying "hedged" strategies that will serve as a portfolio risk dampener without unduly sacrificing return. The Board's decision on its hedge fund portfolio manager is expected possibly by its April Board meeting. At this point, investment staff and the Board's hedge fund project consultant, Bogdahn Group, are narrowing a group of semi-finalists for interviews by the Board's Investment Committee.

Several managers experienced organizational changes during 2013. Overlay manager, St. Paul based Clifton Group was bought by Washington based Panametric Partners. Portfolio manager changes were made at Kansas City based Waddell & Reed (hi-yield) and Advantus Capital Management, a Real Estate Investment Trust (REIT) portfolio manager located in St. Paul. No firms were eliminated from the portfolio during 2013, although mandate levels were reduced in some cases to fund the new strategies.