



Investment Update – 6/18/2014

St. Paul Teachers' Retirement Fund assets moved another notch higher toward its all-time high after recording a 1.7% gain in May. As of the fiscal year to date, the portfolio is ahead 16.1% net of all fees. The portfolio has an annual target return of just ½ that amount, at 8%/year. With just one month remaining in the current fiscal year (the Fund's year ends on June 30), the assets are poised to record its second mid-teens annual return in a row. The Plan's market value now stands at \$1.021 billion. The all-time high water mark for the Fund's assets is \$1.17 billion set in 2007 just ahead of the global financial crisis. The Plan's long term annual return stands at 9.8%. The portfolio's standard deviation, a measure of volatility or risk, is just over 11%. This is down about 10% from an earlier measurement, a positive trend especially when coupled with the double digit annualized investment returns.

Among May's portfolio's leaders were the non-US equity managers who collectively added nearly 3% , with the top performance registered by the Plan's Master Limited Partnership (MLP) energy based portfolio which increased 5% during the month. The portfolio's largest position, comprised of the domestic equity index, was higher by 2.2%. Bonds, as a group, continued to provide surprisingly competitive results. The group, which includes both global and domestic unconstrained components, rose 1.5% in the month and has added 7% for the fiscal year. The Fund's derivative portfolio pegged to the short term US Treasury bill returns plus a hurdle of 5% remained on track for the year, up .5% for the month and ahead by 4.6% year to date.

The major area of disappointment of late continued to be the small and mid-sized companies, which until 2014 have been the source of exceptional outperformance. This area of the market has struggled somewhat linked to the perception that as prices climb, investors get more concerned that stocks are more risky and safety is better found among the larger, more financially proven companies. As a result, large caps have been stronger with mid and smaller companies tending to struggle. Although on a fiscal year to date basis, these portfolios have done well, since January returns have been flat to slightly negative. Cash at month end represented about .5% as the Fund seeks to remain fully invested.

Relative to its benchmark policy mix, the portfolio remains a bit over-weighted in global equities. A planned allocation to a risk dampening hedge fund portfolio next month will help to reduce that overweight, while fixed income and real assets remain within desired target levels.