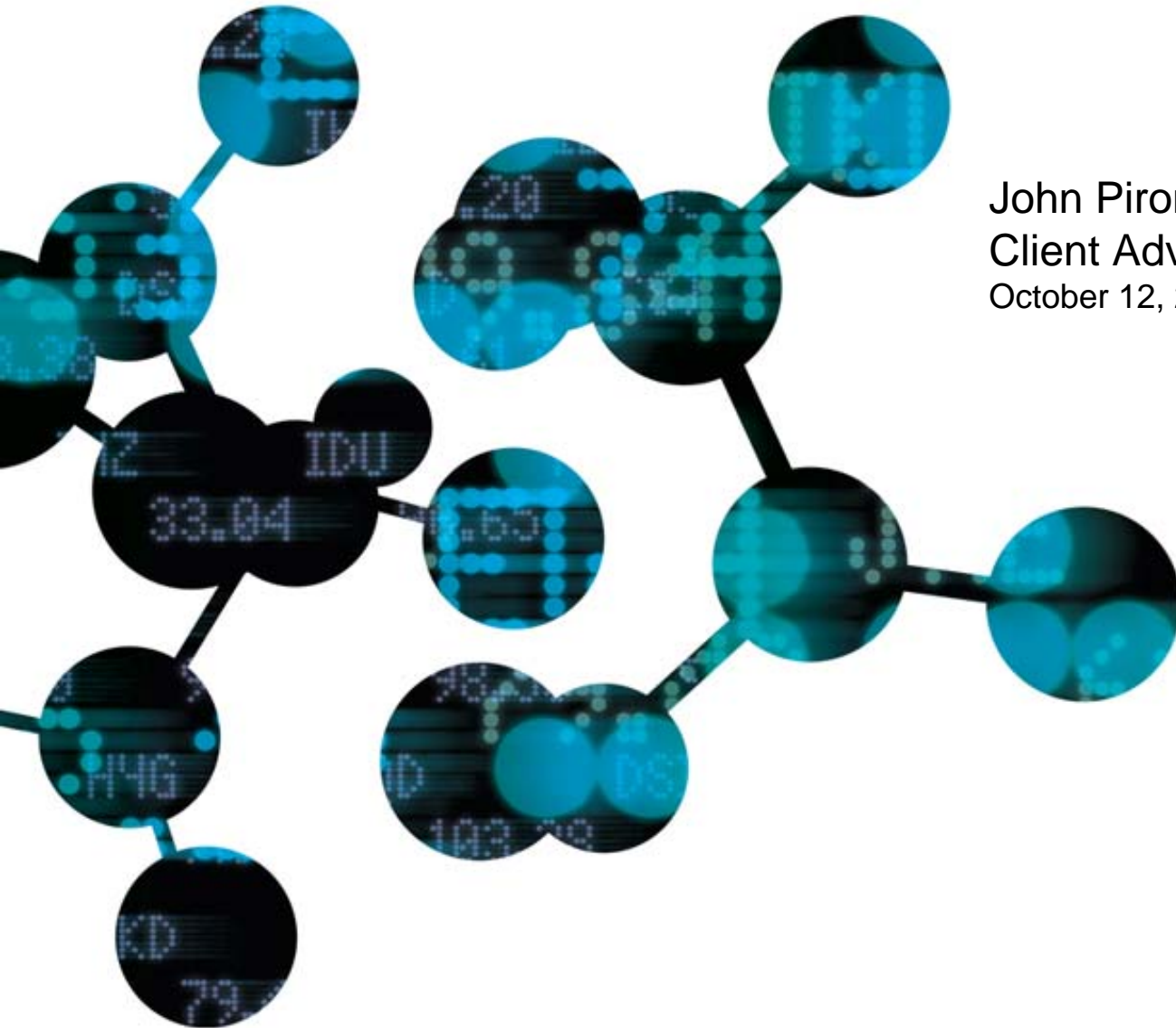


Liquidity and Risk Management

National Council on Teacher Retirement

John Pirone, CFA
Client Advisory Group
October 12, 2009



Root Causes of Liquidity Risk for Public DB Plans

Incentive to push for higher returns

- Encouraged by current GASB regulations
- Higher expected return assumptions result in a “lower” pension liability valuation

Gradual migration toward endowment and foundation model

- Long time pension horizon argues suited to capture illiquidity premium
- Appropriate for all public DB plans?

DB Liquidity Needs Can Be Expected or Unexpected

Expected

Projected benefit payments

Portable alpha programs

Currency hedging programs

Private equity capital calls

Unexpected

Redemption freezes in historically liquid vehicles

Specifics of defined benefit plan provisions

- Ability to participants to take lump sums

Policy Responses

Explicit creation of a liquidity bucket

- Example of Harvard (migrated from -5% to 2% of policy in cash)

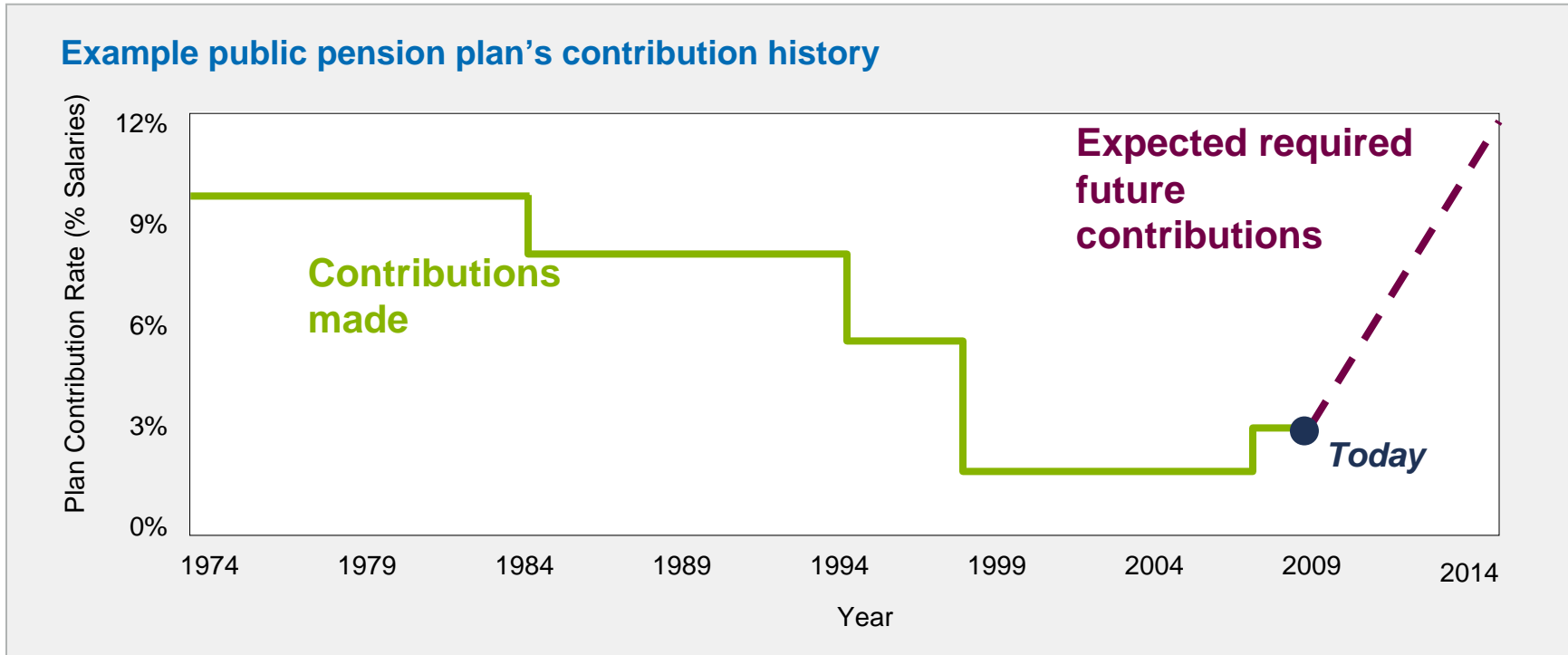
Creative portfolio rebalancing techniques

- Are fixed bands always the best approach?

More comprehensive modeling of future cash inflows/outflows

- Stress testing

Issues on the Horizon



Required cash inflows are likely to significantly increase going forward

The broader issue: Should public plans be managing relative to their liability more like their corporate DB counterparts?