

# Commonwealth of Pennsylvania Public School Employees' Retirement System

**DATE:** April 11, 2012

**SUBJECT:** Black River Inflation Opportunity Fund of One Recommendation

**TO:** Members of the Board

**FROM:** Mark E. Heppenstall, CFA  
Managing Director, Fixed Income

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At the April Finance Committee meeting, staff will recommend that PSERS invest an initial amount of up to \$75 million in the Black River Inflation Opportunity Fund of One (the Fund) managed by Black River Asset Management LLC. The Fund will identify trade strategies that hedge PSERS' investments against adverse increases in inflation expectations as well as take advantage of Black River's expertise to employ leverage for PSERS' holdings of U.S. and Non-U.S. Treasury Inflation Protection Securities (TIPS). The Fund will be included in the TIPS allocation.

Cargill's Global Capital Markets Division started trading fixed income relative value strategies in 1984. In 2003, the Global Capital Markets Division was spun-out, and Black River was established as an independently managed subsidiary of Cargill. Black River has a very successful track record as an alternative asset management firm with a core competency in fixed income relative value trading. PSERS currently has approximately \$258 million invested in the Black River Fixed Income Relative Value Opportunity Fund Ltd.

Staff believes the inflation strategies being utilized within the Fund represent both a tactical and strategic opportunity for profits within the TIPS asset class. Staff recommends an initial investment of up to \$75 million to this Fund, an amount which is within the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines as amended from time to time.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4726.