


Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: May 23, 2014

SUBJECT: Transfer of Black River Inflation Opportunity Fund A to Black River Fixed Income Relative Value Opportunity Fund Ltd.

TO: Members of the Board

FROM: Bob Devine, CFA 
Senior Portfolio Manager, Fixed Income

At the June Finance Committee meeting, staff will recommend that PSERS invest the \$82.3 million currently invested in the Black River Inflation Opportunity Fund A (Fund A) into the Black River Fixed Income Relative Value Opportunity Fund Ltd. (FIRVO). FIRVO will replace Fund A as the portable alpha engine for the TIPS portfolio managed by Black River.

The Black River Inflation Opportunity Fund A was structured in September 2012 as a single alpha trade designed to benefit from the mispricing between the 10 year and 30 year implied inflation. As originally designed, Fund A benefited from the market dislocation, making \$7.3mm. Staff believes it is an opportune time to replace the single strategy with Black River's FIRVO to provide a more diverse tactical universe of investment opportunities. PSERS invested in FIRVO as part of the Absolute Return Program in November 2011 and has had an annualized return of 6.6% since our initial investment. This proposal would increase PSERS total investment in FIRVO to \$377 million.

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 Asset Management LLC was established as an independently managed subsidiary of Cargill. Black River has a very successful track record as an asset management firm with a core competency in fixed income relative value trading.

This recommendation by staff is in accordance with 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 717-720-4915.