

MEMORANDUM #34, 2007

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Revised hedge fund allocation limit

DATE: August 14, 2007

At its regular meeting of July 25, 2007, the Commission voted to approve a request from the Andover Retirement Board to increase the Board's allocation to PRIT's absolute return segment to 10.0% from the previous limit of 7.5%.

The Commission also voted to allow all systems to invest up to 10% in hedge funds / absolute return strategies provided that any amount in excess of 5% is invested through the PRIT Absolute Return Segment. Any system regardless of asset size may invest up to 10% in the PRIT Absolute Return Segment without PERAC regulatory approval. In addition, systems with portfolio assets of at least \$250 million may invest up to 10% of assets in Hedge Funds provided that any amount in excess of 5% is invested through the PRIT Absolute Return Segment.

As always, systems may request supplemental regulations to address particular concerns or strategies.

The Commission's decision reflected its willingness to continue to "level the playing field" for local systems relative to PRIT (which has a total of 10% allocated to hedge funds through a combination of its basic absolute return and "portable alpha" investments) as well as its recognition that, both for the local systems that invest on their own under PERAC's hedge fund guidelines and those that invest in PRIT's Absolute Return segment, investing in hedge funds through established, well-diversified funds of funds has so far been successful in achieving favorable positive returns with minimal exposure to any single hedge fund.

At this meeting, the Commission did not address whether any revision to the existing \$250 million asset limitation for investing in hedge funds should be made but it may do so in the future.

Please address any questions or concerns about PERAC's hedge fund guidelines either to myself or to Investment Director Robert Dennis.

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