

PRESS RELEASE

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PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM POSTS INVESTMENT PERFORMANCE FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Fund outperformed investment earnings assumption and added over \$7 billion in net investment income to the Fund

HARRISBURG, PA – The Public School Employees Retirement System (PSERS) today announced the Fund's investment performance for the fiscal year ended June 30, 2014.

PSERS posted positive returns of 14.91 percent for the fiscal year, 8.66 percent for the 3 year, 12.09 percent for the 5 year, 7.28 percent for the 10 year, and 8.70 percent for the 25 year periods ended June 30, 2014.

PSERS Chief Investment Officer James Grossman reported, "For FY 2014 PSERS' time-weighted net of fees rate of return on investments was 14.91 percent which exceeded PSERS' total fund Policy Index of 12.05 percent for the same time period. PSERS earned investment income of \$7.1 billion net of fees."

The Policy Index is a custom benchmark, which is based on the PSERS' Board-established asset allocation structure that seeks to generate a return that meets the actuarial rate of return assumption of 7.5 percent. If PSERS had passively invested its assets in comparable index funds the Fund would have only returned 12.05 percent. PSERS, however, uses active managers in certain asset classes where we endeavor to gain additional positive investment performance above the index. Because PSERS used those active managers, the Fund added an additional \$1.2 billion over the passive policy benchmark even after all manager fees were paid.

PSERS establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

Grossman commented on the importance of a well-diversified asset allocation, "PSERS is a long-term investor and manages the pension fund with long-term objectives in mind. A primary element of PSERS' investment philosophy is diversification among various asset classes. PSERS sets our asset allocation based on our own unique goals and issues. We

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PSERS posts fiscal year investment performance

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review our asset allocation on an annual basis and make changes when we feel it is appropriate to do so. We not only look at fees paid and risk levels; we look at our funding, diversification and cash flow needs which are very specific to our Fund.”

Grossman explained, “Funding of PSERS by the Commonwealth and school employers continues to be below the Annually Required Contribution (ARC), although to a lesser extent than in the past few years. The General Assembly has allowed the provisions of Act 120 of 2010 to take effect and it is working. Act 120 is gradually increasing the employer contributions to actuarially required levels. When the employer contribution rate reaches the level required by the actuary, the principal of the existing pension debt begins to get paid and decreases.”

Over the past fiscal year the continued underfunding of the System also created a situation where PSERS had negative cash flow of \$3.1 billion, or over 6 percent of beginning net assets. This negative cash flow was funded through the liquidation of assets during the course of this past year to meet the cash flow needs of the System.

“As a result of the large negative cash flows over the past few years, PSERS has adopted a more conservative investment risk profile,” said Grossman. “PSERS increased diversification to assets other than equities to create a more stable return profile over time while still meeting our investment return objectives.”

PSERS’ strongest asset-class performers for the fiscal year included: Master Limited Partnership +35.97 percent, U.S. Equities +25.27 percent, and Risk Parity +23.95 percent.

More detailed investment performance data as of June 30, 2014 is available on PSERS’ website at: <http://www.psers.state.pa.us/investment/invest.htm>.

About the Pennsylvania Public School Employees’ Retirement System

PSERS is the 19th largest state-sponsored defined benefit public pension fund in the nation. As of June 30, 2014, PSERS had net assets of approximately \$53.3 billion and a membership of nearly 267,000 active school employees and 209,000 retirees.

As of June 30, 2014 PSERS had 9.8 percent of its assets in non-U.S. equities, 10.0 percent in U.S. equities, 19.3 percent in U.S. and global fixed income investments, 20.8 percent in private markets, 14.2 percent in real estate, 4.0 percent in commodities, 9.8 percent in absolute return strategies, 4.2 percent in cash and cash equivalents, 3.8 percent in master limited partnership, and 4.1 percent in risk parity.

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