

# PRESS RELEASE

**For Immediate Release**  
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## **Pennsylvania PSERS Earns \$474 Million in Net Investment Income for FY 2016** ***Fund Reduces External Investment Manager Fees for Third Consecutive Year***

HARRISBURG, PA – The Public School Employees' Retirement System (PSERS) today announced the Fund earned \$474 million net of fees and posted positive returns of 3.99 percent for the quarter and 1.29 percent for the fiscal year (FY) ended June 30, 2016.

“FY 2016 proved to be very challenging for investors. The first half of the year was very weak and was marked by a Federal Reserve interest rate hike in December, expectations of multiple interest rate hikes in 2016, and risk assets falling in price. During the first six months of FY 2016 few asset classes had positive returns,” said PSERS Chief Investment Officer, James Grossman, Jr.

“During the second half of the fiscal year, however, the markets rebounded due to a reduction in the expected pace and number of Fed interest rate hikes for 2016 and beyond,” said Grossman. “The reduced interest rate expectations caused asset prices to rally. During the second half of the fiscal year, most asset classes in which PSERS invests were up, including gold, Energy Master Limited Partnerships, and US Long Term Treasuries.”

Grossman also commented on the outlook for the Fund's next fiscal year which began July 1<sup>st</sup> and the Fund's performance since the Great Recession.

“FY 2017 is off to a very positive start and the Fund's preliminary performance for the fiscal 2017 first quarter appears to be strong,” said Grossman. “While markets continue to rebound, a low return environment combined with low interest rates continues to challenge all savers and investors, including PSERS,” cautioned Grossman. “Interest rates remain very low and economic and productivity growth in the U.S. and around the world remains tepid.”

“In 2009 PSERS made the decision to increase the Fund's diversification to certain asset classes not tied to the equity markets to limit the impact of equity market volatility,” Grossman explained. “The asset allocation changes have performed as expected. In the seven fiscal years since the Great Recession of 2008, PSERS earned a net of fee return of 9.16 percent with significantly less risk, while materially outperforming a global 60/40 portfolio return of 7.85%.”

As a result of the low return environment, PSERS remains cautious and continues to closely monitor investment risk and liquidity needs while maintaining a well-diversified portfolio. Earlier this year at its June meeting PSERS Board reduced the Fund's investment return assumption for the fourth time since 2007 to 7.25 percent to reflect long-term capital market assumptions. The Fund also adjusted many of its actuarial assumptions to more closely reflect the Fund's economic and demographic experience.

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In other business during today's meeting, PSERS' Chief Financial Officer, Brian Carl, presented highlights of PSERS' financial statements and noted that for the third consecutive year PSERS' investment expenses have decreased. PSERS' investment expenses have declined from \$558 million in FY 2013 to \$416 million in FY 2016.

Over the past two years PSERS' investment expenses have decreased by over \$142 million or 25 percent. Carl indicated this was accomplished by lowering external investment management fees through strategically reducing PSERS' alternative investment and real estate allocations through secondary market sales, continued careful negotiation of fees, and by increasing the amount of assets being managed in-house by PSERS' internal investment professionals. PSERS currently manages \$19.2 billion or 34% of its assets internally.

Carl also emphasized the financial importance of PSERS beginning to receive 100 percent of the actuarially required contributions for the first time in fifteen years on July 1, 2016. This funding milestone has been recently noticed by the bond rating agency, Moody's Investors Service. In August 2016 Moody's revised the Commonwealth's outlook from negative to stable specifically noting that the most difficult phase of pension contribution ramp-ups is in the past and the Commonwealth is on a solid path toward full funding of its pension plans.

### **About the Pennsylvania Public School Employees' Retirement System**

PSERS is the 20th largest state-sponsored defined benefit public pension fund in the nation. As of June 30, 2016, PSERS had net assets of approximately \$50.2 billion and a membership of approximately 260,000 active school employees and nearly 220,000 retirees.

More detailed investment asset allocation and performance data as of June 30, 2016 is available on PSERS' website at: <http://www.psers.state.pa.us/investment/invest.htm>.

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