PRESS RELEASE

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PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM REPORTS INVESTMENT PERFORMANCE FOR THE FISCAL YEAR ENDED JUNE 30, 2015
Fund also receives independent auditor's report and announces a reduction in investment manager fees for second year

HARRISBURG, PA – The Public School Employees' Retirement System (PSERS) today announced the Fund's investment performance for the fiscal year ended June 30, 2015. PSERS posted positive returns of 3.04 percent for the fiscal year, 8.52 percent for the 3 year, 9.73 percent for the 5 year, 6.31 percent for the 10 year, 8.45 percent for the 25 year, and 8.98 percent for the 30 year periods ended June 30, 2015.

PSERS' strongest asset class performers for the fiscal year included Non-U.S. Equities, 9.31 percent and Real Estate, 13.92 percent. More detailed investment performance data as of June 30, 2015 is available on PSERS' website at: http://www.psers.state.pa.us/investment/invest.htm.

PSERS' Chief Investment Officer James Grossman commented on the fiscal year investment performance. "It has been a positive but low return environment for investors, including PSERS. PSERS earned 3.04 percent for the FY 2015 and added $1.3 billion in investment income net of fees, but did not meet its earnings assumption for the fiscal year period," said Grossman. "There will be years when PSERS does not meet its earnings assumption and that is to be expected. Our focus remains on maintaining a well-diversified asset allocation that can withstand the volatility in the markets, provide enough liquidity to meet our cash flow obligations (primarily benefit payments), and meet PSERS' earnings assumption over the long-term which the Fund has consistently done."

Mr. Grossman further remarked on the importance of a well-diversified asset allocation, "After the Great Recession in 2008 PSERS made significant changes to its asset allocation," said Grossman. "PSERS continues to be underfunded by school employers and the Commonwealth and we continue to be cash flow negative. As a result, PSERS cannot take the same investment risk we had in the past."

"PSERS made the decision years ago to reduce exposure to public stock markets and increase the Fund's diversification to asset classes not tied to the equity markets," Grossman explained. The asset allocation changes have performed as expected and limited the impact of the recent volatility we have seen in the public equity markets. PSERS is not expected to grow as fast during soaring equity markets but we generally won't be as negatively impacted during equity market downturns," said Grossman.

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Grossman commented on the recent volatility in the investment markets and outlook for third quarter performance. “Volatility has returned to investment markets around the world. Many investment markets are experiencing losses for both the third quarter and calendar year-to-date periods. Stocks had their worst quarter since 2011 and so far 2015 has been a challenging year for stocks. The total return of the S&P 500 Index was down nearly 6.5 percent for the third quarter and is down over 5.2 percent year-to-date. Worries about a global economic slowdown continue to impact global and emerging markets even though the U.S. economic data continues to be generally positive. Commodity and related markets declines have deepened. Few asset classes have a positive return so far in 2015.”

Also during today’s meeting, PSERS received an independent auditor’s report from SB & Company, LLC. PSERS’ financial statements were found to be accurate and fairly present the Fund’s financial position.

PSERS’ Chief Financial Officer Brian Carl commented on the audit results, “PSERS continued its efforts to improve the transparency and reporting of the Fund’s financial data over the past few years. We are pleased to have received an unmodified opinion from our independent auditors this year and will continue to focus our efforts to meet and exceed financial reporting requirements in the future.”

Mr. Carl also presented highlights of PSERS’ financial statements during the meeting and noted for the second consecutive year that PSERS’ investment expenses have declined. PSERS’ investment expenses have declined from $558 million in FY 2012-2013 to $455 million in FY 2014-2015, a reduction of over 18 percent.

“Governor Wolf made reducing investment manager fees at PSERS a priority in his Budget proposal earlier this year. PSERS met with the Governor and his staff and support his goal of identifying potential fee savings whenever feasible. Over the past two years PSERS’ investment expenses have decreased by over $103 million. This was accomplished by reducing external investment management fees through strategically reducing PSERS’ private equity allocation, continued careful negotiation of fees, and by bringing the remaining U.S. equity allocation that was managed by third-party investment managers in-house to be managed by PSERS’ internal staff,” said Carl.

PSERS continues to cooperate with Governor Wolf and his staff to look for ways to reduce investment fees in the future including bringing additional asset classes in-house to be managed internally by PSERS’ investment staff. This approach would lessen the need for external investment managers in those instances where the Board believes PSERS’ internal staff could produce higher net investment returns with similar investment risk.

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, 2015, PSERS had net assets of approximately $51.9 billion and a membership of over 263,000 active school employees and nearly 214,000 retirees.

As of June 30, 2015 PSERS had 14.6 percent of its assets in non-U.S. equities, 9.8 percent in U.S. equities, 20.2 percent in U.S. and global fixed income investments, 15.8 percent in private markets, 12.9 percent in real estate, 4.0 percent in commodities, 9.5 percent in absolute return strategies, 2.5 percent in cash and cash equivalents, 3.5 percent in master limited partnerships, and 7.2 percent in risk parity.

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