

PRESS RELEASE

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Pennsylvania PSERS Earns 10.14% in FY 2017; Exceeds Investment Return Assumption of 7.25% *Fund adds \$5 billion in net investment income*

HARRISBURG, PA – The Public School Employees' Retirement System (PSERS) today announced the Fund posted a positive return of 10.14% for the fiscal year ended June 30, 2017 (FY 2017) and earned \$5 billion in investment income net of fees.

PSERS Chief Investment Officer, James Grossman, Jr., explained during last Thursday's Investment Committee meeting, "This past fiscal year can be characterized as a "risk-on" period where taking concentrated equity risk significantly paid off for those investors willing and able to take that level of equity risk. By taking less equity risk and managing a more diversified portfolio, PSERS is endeavoring to achieve its actuarial return target over time with less volatility in annual returns. While this past year's market environment was not as favorable for our allocation relative to other investors that hold a higher equity allocation, PSERS still generated a solid fiscal year return well in excess of its 7.25% return assumption." PSERS' top performing asset classes included U.S. and Non-U.S. Equities, Private Markets, High Yield Fixed Income, and Infrastructure.

Grossman continued, "Active management was a significant contributor to performance, adding over \$1.7 billion relative to the Board-approved policy benchmark. Active management added value in most asset classes this past fiscal year relative to passively managed alternatives, as 13 of 15 asset classes outperformed their policy benchmarks."

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, "In the eight fiscal years since the Great Recession of 2008/2009, PSERS earned an annualized net of fee return of 9.28% which exceeded the Fund's 7.25% annual return assumption. During this period, PSERS took significantly less investment risk while still outperforming a traditional global 60/40 portfolio return of 8.22%."

In addition to the 10.14% FY 2017 return, PSERS also reported positive investment returns of 4.76% for the three-year, 7.35% for the five-year, 7.24% for the 15-year, and 8.03% for the 25-year periods ended June 30, 2017.

PSERS 10-year return of 3.80% remains impacted by the 2008/2009 returns during the Great Recession. PSERS has two more years before the full impact of the Great Recession is recognized and the 10-year return number will begin to rebound.

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PSERS Earns 10.14% in FY 2017; adds \$5 billion in net investment income

Page 2

In other business during last Thursday's Budget/Finance Committee meeting, PSERS' Chief Financial Officer, Brian Carl, presented highlights of PSERS' financial statements and noted that PSERS' total net position increased by \$3.3 billion from \$50.2 billion at June 30, 2016 to \$53.5 billion at June 30, 2017. The increase was due in large part to net investment income resulting from the 10.14% FY 2017 return plus member and employer contributions exceeding deductions for benefit and administrative expenses. Additionally, on a market value basis, PSERS' unfunded liability declined in FY 2017 as PSERS' total net position grew faster than its total pension liability.

Carl also emphasized the financial importance of PSERS receiving 100% of the actuarially required employer contributions from school employers and from the Commonwealth, who directly reimburses school employers for no less than 50% of the employer contribution rate. During FY 2017, employers fully funded the actuarially required contributions to PSERS for the first time in fifteen years. Full actuarial funding from employers, along with members contributions and investment income, are all necessary sources of funds that will pay down the unfunded liability of the System. While a challenging pension funding environment remains for school employers and the Commonwealth due to legacy debt issues, all of the sources of funding are now in place to bring PSERS back to fully funded status.

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 15th largest state-sponsored defined benefit public pension fund in the nation. As of June 30, 2017, PSERS had net assets of approximately \$53.5 billion and a membership of approximately 260,000 active school employees and over 223,000 retirees.

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