The recent portrayal of PSPRS performance and investment fees in the Arizona Republic based on a recent study by the Pew Charitable Trusts was one-sided and deserving of a response.

My name is Allan Martin and I am the general consultant of PSPRS (and many other pension plans across the country) and I have a fiduciary duty to the trust and its members. That means I am professionally, ethically, and legally obligated to provide advice to the PSPRS Board of Trustees that I believe to help the trust perform and provide for members. I can speak to PSPRS performance while I will let PSPRS staff provide details (below) about investment fees.

With that said, it is true that the PSPRS portfolio has underperformed over the 10-year time period that ended with fiscal year 2015. In fact, PSPRS ranked in the bottom 2 percent of a peer group of public funds greater than $1 billion in value. The reasons for this are simple and have been addressed openly with members, employers and the media.

A Brief History of the PSPRS Portfolio

PSPRS, in the early 2000s, and before any of the current staff, board, or consultants were around, invested heavily in Arizona real estate, buying undeveloped land in the hope of building projects like golf-course anchored new communities and retail facilities. This left PSPRS especially vulnerable to the real-estate-triggered crash in the global financial markets in 2007 and 2008. Unfortunately, Arizona real estate values were hit especially hard while legal restrictions required PSPRS to invest heavily in stocks, which also fell dramatically in 2007 and 2008.

The real estate crash happened at about the same time PSPRS secured, after years of unsuccessful attempts, a change in law to allow PSPRS to invest in a broader assortment of investments to reduce the risk associated with pensions that have a large amount of equities (stocks) within their portfolio. This goal was a direct response to the crushing losses during the collapse of the so-called "Dot.Com" industry in 2001-2002 and the annual payments of the statutorily required permanent benefit increase (PBI) payments for retirees that prevented the recovery of investment losses from investment returns.

PSPRS adopted a more conservative, more widely diversified asset allocation during the 2008-2011 period but it took years to transform the pension into the efficient, low-risk plan that it is today.

A Brief Glimpse of the Present and Future

Incredibly, some of the full results of the PSPRS changes are visible if we move past the Pew report's ending time frame, June 30, 2015, by just one year. As of the end of 2016, the

PSPRS 10-year return net of fees ranked above 25 percent of its peer group (remember performing at the bottom 2 percent?) that includes about 55 pension plans with portfolios valued at more than $1 billion.

Here are some other facts about PSPRS investments that are worth considering:

For the past three years as of Dec. 31, 2016, PSPRS net-of-fee returns place it within the top 16 percent of peer pensions
PSPRS performed within the top third of peer pension plans last fiscal year despite taking less risk than 96 percent of peers
The $1 billion PSPRS private credit portfolio places it among the top 4 percent of its peer pension plans over the 3-year period ending Dec. 31, 2016
The performance of the PSPRS $1.3 billion private equity portfolio places it among the top 5 percent of peers over the 3-year period ending Dec. 31, 2016
Without the legacy real estate allocation, PSPRS returns would have ranked in the top 15 percent of peers for the 10-year period ending Dec. 31, 2016

It is clear that legacy investments in Arizona real estate are the deficiency in the PSPRS portfolio. It is also true that it has taken years of hard work on the part of the current staff and advisors to sell these troubled assets responsibly. The write-offs and sales of properties below the acquisition costs have been accurately reflected in the performance of the plan.

On a personal note, I can say that I count the members of the PSPRS investment team among the most knowledgeable, capable and ethical experts I have had the pleasure of working alongside. PSPRS staff are also recognized among industry leaders, investment fund managers, financial media and even in academic circles for their skill and accomplishments.

Meetings of the PSPRS Board of Trustees are open to the public and PSPRS reports all expenses and fees as part of its commitment to transparency.

Regards,

Allan C. Martin

NEPC, LLC, partner

- Forty-eight years' investment and consulting experience

- Ranked 2nd Most Influential Consultant in the World by aiCIO Magazine (2012)

- MML Public Fund Consultant of the Year (2008)

- Member: Executive Committee; Non-U.S. Equity Advisory Group

- Previous affiliations:

Bankers Trust - Managing Director Global Retirement Services
Dresdner/RCM - Partner, Head of Global Client Service & Marketing

- MBA and BS, Stanford University (Phi Beta Kappa)