



# PERA

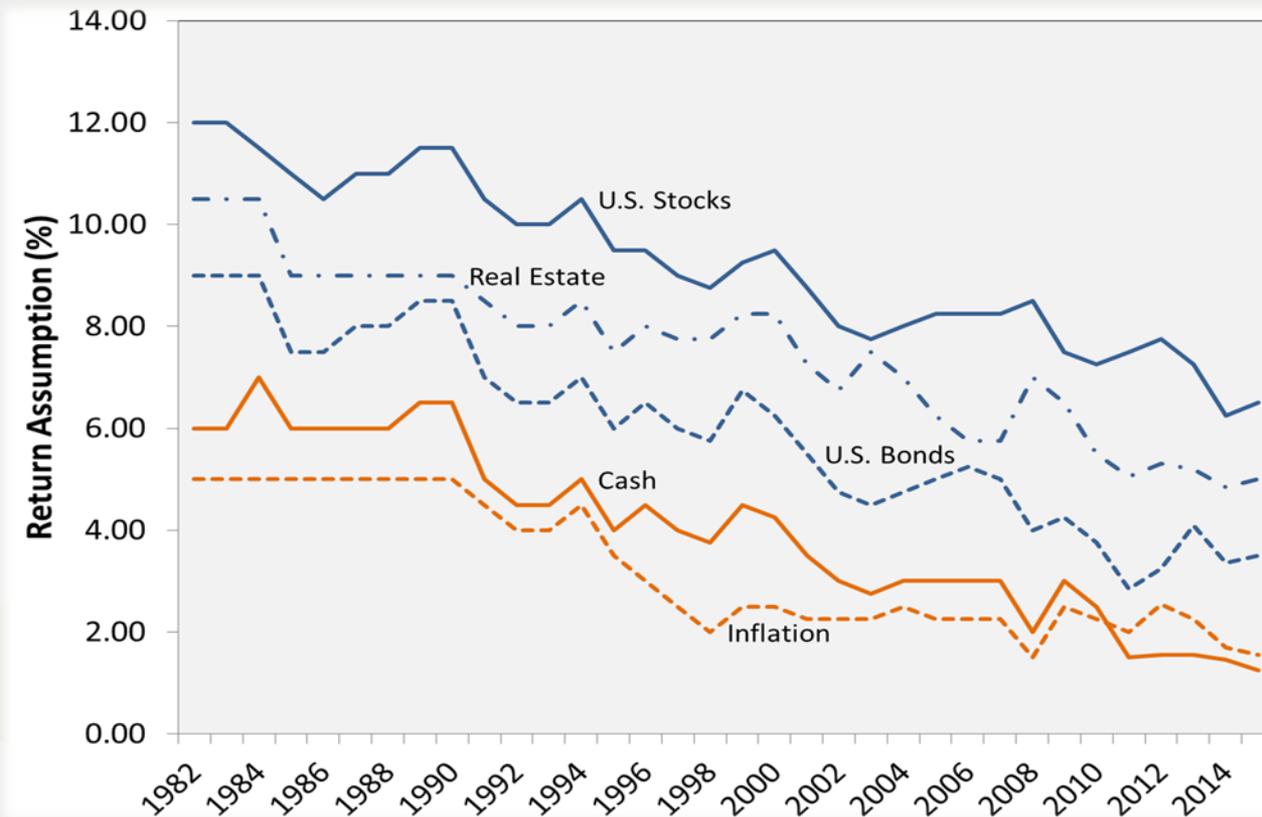
Legislative Finance Committee  
Senator John Arthur Smith, Chairman  
Representative Jimmie C. Hall, Vice-Chairman  
April 13, 2016

Patty French, Board Chair  
Wayne Propst, Executive Director  
Jon Grabel, Chief Investment Officer

# PERA 2016 Strategic Asset Allocation Process



# Forecasted Returns Over Time



Source: Wilshire Consulting 2016

- Expected returns over the 10 year time horizon have moved lower across major asset classes
- With lower risk premiums, total portfolio expected returns are likely to be more muted than 20+ years ago

# Simplifying Asset Categories

- Identify asset groupings based on the role each asset plays in a broader portfolio
- True diversification is achieved when combining asset classes that respond differently to various economic environments
- Avoid “diversification in name only” pitfall
- PERA is working to counteract manager and investment strategy proliferation, and effect better implementation of its strategic asset allocation

# Asset Class Buckets

Current % of PERA Portfolio

## Global Equity

- Economic Growth

- Global Public Equity
- Global Low Volatility Equity
- Hedged Equity
- Private Equity

54.3%

## Risk Reduction/ Mitigation

- Safety and  
Liquidity

- Core Fixed Income
- Global Core Fixed Income
- Long Duration Core Fixed Income
- Cash

26.1%

## Credit Oriented

- Hybrid Exposure  
to Growth and  
Income

- Liquid Credit Strategies
- Emerging Market Debt
- Illiquid Credit Strategies

6.3%

## Real Assets

- Inflation  
Protection

- Liquid Real Estate
- Illiquid Real Estate
- Liquid Real Assets
- Illiquid Real Assets
- Market Neutral Hedge Funds

13.3%



**PERA**

## **PERA Fund Performance**

# PERA Fund Performance

- The PERA Fund balance was \$13.9 billion on December 31, 2015
- During 2015, the Fund returned -1.10% (net of fees) and was down ≈\$90 million (net of fees)
- PERA Fund paid out benefits of \$1.01 billion during 2015
- PERA Smart Save (457b) balance was \$500 million on December 31, 2015 with 18,847 participants

As of 12/31/2015	Fiscal YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 6/30/1985
PERA Total Fund Returns (Net of Fees)*	-2.78%	-1.10%	6.77%	6.43%	4.69%	8.72%
Policy Benchmark*	-2.74%	-0.17%	6.34%	5.88%	5.42%	8.89%
Value Add	-0.04%	-0.93%	0.43%	0.55%	-0.73%	-0.17%

\*Annualized returns

# PERA Risk Statistics

As of 12/31/2015*	1 Year	3 Year	5 Year	10 Year
Beta**	1.04	1.08	1.06	1.13
Realized Risk	6.80	5.99	8.27	12.27
Policy Risk	6.56	5.50	7.78	10.81
Active Risk***	0.24	0.49	0.49	1.46

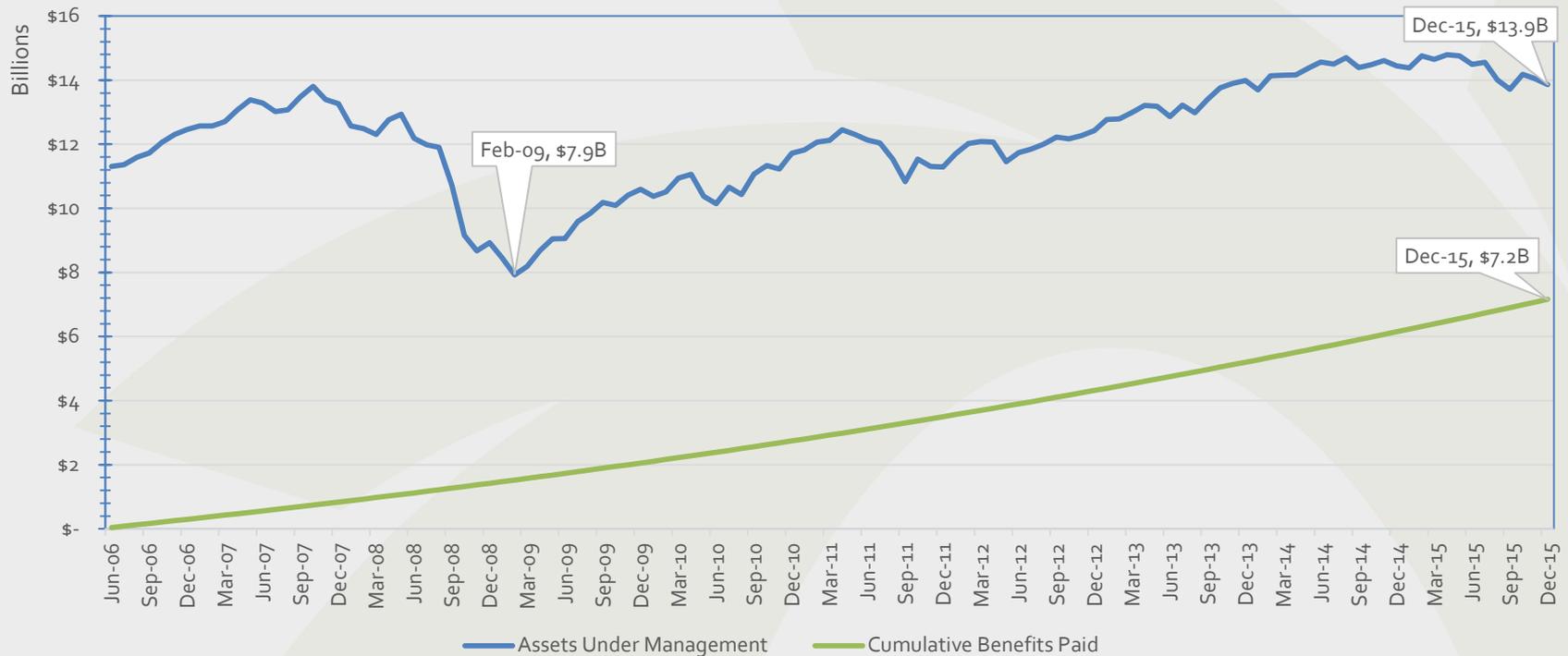
\* Risk Statistics are annualized

\*\*Market Sensitivity

\*\*\*Active Risk is defined as Realized Risk minus Policy Risk

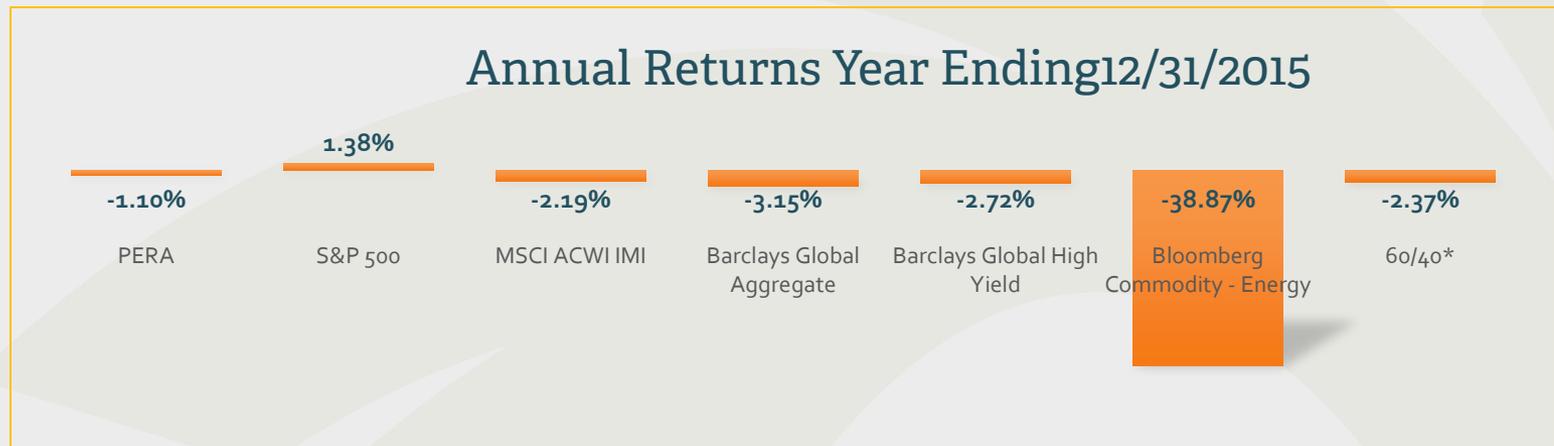
# PERA Assets Under Management

Assets Under Management & Cumulative Benefits Paid



# 2015 Macro Themes

- Overall a challenging year:
  - Slowing global growth
  - Divergence in central bank policies
  - Commodity deflation



\*MSCI ACWI IMI Index / Barclays - Global Aggregate Bond Index

- 2015 Winners and Losers
  - **Winners:** Private Equity +15.6%, Real Estate +8.9%
  - **Losers:** Real Assets -24%, Emerging Market Equity -14.3%
- Prudent diversification is the best long term strategy

# Conclusions

- Since FY 2014 PERA has
  - Reduced the PERA Fund's sensitivity to the direction of the market
  - Better balanced reduced risks across asset categories
  - Reduced fees paid to money managers
- In FY 2017 PERA anticipates
  - Implementing an updated strategic asset allocation
  - Decreasing its actuarial rate of return assumption from 7.75%
- A lower actuarial return assumption would
  - Result in a one-time increase in the Plan's liabilities
  - Better reflect market realities
  - Facilitate a less risky portfolio
- An updated strategic asset allocation and lower actuarial return assumption provides greater assurance for PERA to meet its obligations to current and future retirees