CAPITOL QUOTES

"Our teachers have spent three years in professional learning and collaboration to develop and refine curriculum to meet these rigorous standards. Why would we reverse these efforts? What is the expected outcome?"

— Patricia Tate, Osborn School District superintendent, on threats to overturn the state's Common Core educational standards.

"It gives another reason for people to look at Arizona in a negative way."

— Chuck Essigs, a lobbyist for the Arizona Association of School Business Officials, saying most Arizona schools would be considered failing under No Child Left Behind education standards if the state repeals Common Core.

"I think that that's nothing more than a bunch of garbage coming from the federal government."

— Sandra Dowling, an aide for incoming Superintendent of Public Instruction Diane Douglas, on the threat that Arizona's NCLB waiver would be pulled if the state repeals Common Core.

"This result is not the one we hoped for, but we take solace in having spoken out loud and clear for the principle that every legal vote should be counted."

— U.S. Rep. Ron Barber, D-Ariz., in a statement conceding defeat to Republican Martha McSally after a recount confirmed her election in the 2nd Congressional District.

"But when it comes down to something that is definitely a state responsibility and right, that is giving licenses to those that reside in our state, they step in and they want to usurp that responsibility from us. That is wrong."

— Gov. Jan Brewer, saying the Obama administration should not have weighed in on whether Arizona can prevent dreamers from getting driver's licenses.

Prominent industry consultants rank PSPRS among the top 4 percent of all U.S. pension funds in risk-adjusted returns for the past three years. We also join the top 11 percent of all U.S. pension funds for the past five years. While these facts might not make for a provocative headline, they matter to our beneficiaries, our contributors, our staff and our elected officials.

The truth about PSPRS investment performance

COMMENTARY

RYAN PARHAM

All too often, fiction and gossip move faster than truth and reason. As such, it is often stated by our detractors that our $8 billion portfolio is the state's "worst-performing pension plan," which gives the impression that our investment staff is incompetent and responsible for the trust's sagging pension funding levels.

The truth is: the Arizona Public Safety Personnel Retirement System has an enviable investment record. Prominent industry consultants rank PSPRS among the top 4 percent of all U.S. pension funds in risk-adjusted returns for the past three years. We also join the top 11 percent of all U.S. pension funds for the past five years. While these facts might not make for a provocative headline, they matter to our beneficiaries, our contributors, our staff and our elected officials.

Most importantly, we are achieving these results while taking far less risk than nearly every other pension fund in the country.

Return is a direct result of risk taken. The more risk one takes, the higher the potential return – and the threat of loss. The struggle is maximizing return while minimizing risk, and the benchmark for evaluating skill is what level of return can be achieved within a measurable level of risk.

Last fiscal year, PSPRS outperformed national risk-adjusted averages by one half of 1 percent. It sounds miniscule, but it meant an additional $380 million in value to the trust. Our actively managed strategy is simple: Diversify assets and reduce exposure to publicly traded equities, the greatest driver of market volatility. High-risk strategies and lack of diversification have proven disastrous for PSPRS, as evidenced by $1 billion losses suffered in the 2000-2001 "dot-com" market crash.

While it is true that in recent years PSPRS' returns have been less than its sister plan, the Arizona State Retirement System (ASRS), it is important to remember our innovative, low-risk, moderate return strategy is by conscious design, due to a pension benefit that PSPRS alone must pay to pensioners. This benefit, called the Permanent Benefit Increase, or "PBI," siphons and distributes half of all returns in excess of 9 percent to eligible retirees. Not only are these increased payment levels made permanent, the investment gains only serve to increase – not decrease – unfunded future liabilities.

This rang true in fiscal years 2013 and 2014, in which PSPRS net performances were a positive 11 percent and 13.3 percent, respectively, while the system's funded ratio dropped on both occasions. The cruel irony of this is that unless the PBI is modified to allow the PSPRS to retain and reinvest all of its gains, it is unlikely that we will ever be able to significantly impact the decline in our funding ratio.

PSPRS wants its retirees to enjoy increases, but we are incentivized to seek lower returns in the range of 9 percent to maximize earnings that can be applied to cover – and hopefully reduce – unfunded liabilities.

It is this flawed mechanism that serves as the main contributor to PSPRS' funding drop, and unless changed by a vote of the people or the Legislature and upheld by the courts, we are powerless to slow the decline.

The insistence on assigning blame on PSPRS investment performance – and by extension our employees – for diminishing funding ratios is inaccurate and misleading and a disservice to policymakers, our beneficiaries and the public alike.

Given the evident constraints they must operate under, our nationally and internationally recognized investment team deserves appreciation for its service to our state, not derision that has no basis in fact.

Ryan Parham is PSPRS' chief investment officer.

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Web site: www.azcapitoltimes.com

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