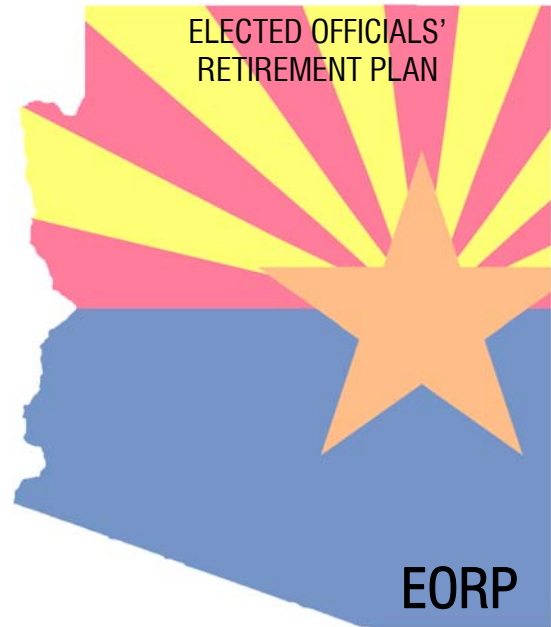
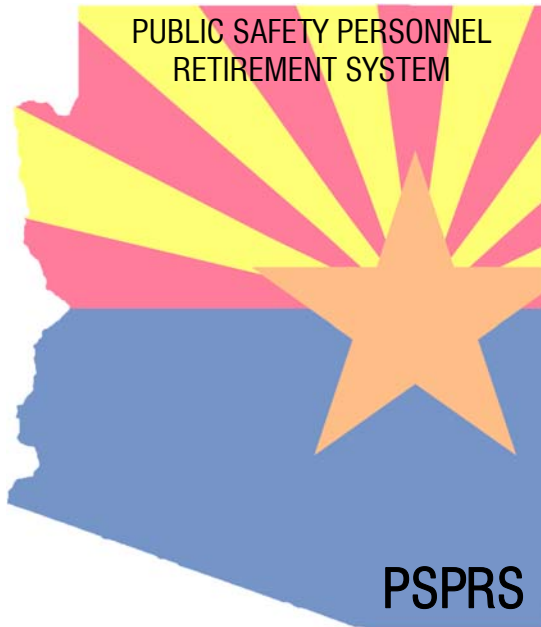


# SUMMARY ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018



**EXECUTIVE STAFF**  
(AS OF JUNE 30, 2018)



**Dave DeJonge**  
Deputy Administrator



**Jared A. Smout**  
Administrator



**Mark Steed**  
Chief Investment Officer

**BOARD OF TRUSTEES**  
(AS OF JUNE 30, 2018)



**Brian P. Tobin**  
Chairman



**William T. Buividas**  
Vice Chairman



**William C. Davis**  
Trustee



**Edward J. McNeill**  
Trustee



**Harry A. Papp**  
Trustee



**Bryan Raines**  
Trustee



**Mike Scheidt**  
Trustee



**Dean M. Scheinert**  
Trustee



**Donald A. Smith, Jr.**  
Trustee

## MESSAGE FROM THE ADMINISTRATOR

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Dear Members,

I am pleased to present the PSPRS Summary Annual Financial Report for the fiscal year ended June 30, 2018. This report provides financial information about the System's financial status, investment performance, and highlights significant changes that occurred during the year. The information in this report is derived from the Comprehensive Annual Financial Report (CAFR). To view the full CAFR, please refer to the last page of this report.



Jared Smout  
Administrator

### **PLAN OVERVIEW**

PSPRS was created on July 1, 1968 by A.R.S. § 38-841, for public safety personnel who are regularly assigned hazardous duty in the employ of the state of Arizona or a political subdivision thereof. It was joined by EORP on August 7, 1985, by A.R.S. § 38-802, when the Judge's Retirement Plan merged with the previous Elected Officials' Retirement Plan. EORP is for eligible judges and state, county and local elected officials of participating governmental employer units. Finally, on July 1, 1986, CORP was added by A.R.S. § 38-882 for corrections officers, county, city or town detention officers, dispatchers and probation officers. Each plan was created to provide a uniform, consistent and equitable statewide program for their respective eligible members.

PSPRS and CORP are agent multiple-employer defined benefit plans and are administered at the local level by 229 (PSPRS) and 28 (CORP) individual local boards in accordance with A.R.S. §§ 38-847 and 38-893. As agent multiple-employer plans, the assets and liabilities of each individual local board are accounted for separately, thereby allowing for individual funding levels and employer contribution rates. EORP is a cost-sharing, multiple-employer defined benefit plan where the Board administers and manages the plan. As such, the assets and liabilities of EORP are pooled for all the employers who share the same funding level and employer contribution rate. EORP was closed to newly elected officials as of January 1, 2014. All the assets of PSPRS, EORP and CORP are pooled for investment purposes only and reside in the PSPRS Trust, a formal entity created for that express purpose.

Individual local boards for PSPRS and CORP determine eligibility for membership, normal retirement benefits (based on years of service, the annual benefit accrual rate and final average compensation), disability benefits, and survivor benefits for spouses and children. The Board of Trustees fulfills these functions for EORP.

The contributions received from and benefits distributed for each local board and EORP are accounted for by the Board through the administrative offices. However, in accordance with A.R.S. § 38-848, the Board is not responsible for nor has the duty to review the actions or omissions of the individual local boards, but does have the discretion to seek review or rehearing (and does so) to protect the System as a whole. Additionally, although not part of a defined benefit plan or the Trust, the Board also administers the separate Public Safety Cancer Insurance Policy Program for members of PSPRS and CORP. The Board also administers defined contribution plans and has contracted with a third-party administrator to manage those plans.

### **INVESTMENTS**

Investment portfolio income is a significant source of revenue for the PSPRS plans. In FY18 our investment portfolio provided net investment income of \$651.59 million. The rate of return over the fiscal year was 7.07 percent net of fees. Over the past five years, the portfolio has an annualized, net of fees rate of return of 7.18 percent, slightly below our assumed rate of return of 7.4 percent.

Our portfolio is a well-diversified portfolio. The portfolio is strategically allocated to provide appropriate diversification that limits the impact when markets experience losses. Both traditional and nontraditional assets are incorporated into the asset allocation mix.

### **ACKNOWLEDGEMENTS**

The success of PSPRS requires the cooperation and support of our employers and local boards. We thank the staff and management of our employers along with those who serve on local boards for their encouragement and support. We also thank the staff and Board of Trustees for the commitment and efforts to ensure that PSPRS meets the needs of public servants who serve throughout the State of Arizona. We are honored and privileged to serve those who serve others.

Respectfully submitted,

Jared A. Smout  
Administrator

SUMMARY COMPARATIVE STATEMENTS OF FIDUCIARY NET POSITION - ALL PLANS COMBINED  
(IN THOUSANDS)

ASSET CATEGORY	PSPRS 2018	EORP 2018	CORP 2018	AOC 2018	TOTAL 2018	TOTAL 2017	PERCENT CHANGE
Cash and Short-Term Investments	315,406	10,990	48,503	13,311	388,210	267,682	45.03%
Total Receivables	67,402	11,667	9,764	5,414	94,247	47,881	96.84%
Total Investments	7,237,827	287,261	1,500,380	411,754	9,437,222	9,050,792	4.27%
Securities Lending Collateral	441,861	17,537	91,596	25,137	576,131	620,010	-7.08%
Net Capital Assets	2,939	210	382	110	3,641	3,811	-4.46%
<b>Total Plan Assets</b>	<b>8,065,435</b>	<b>327,665</b>	<b>1,650,625</b>	<b>455,726</b>	<b>10,499,451</b>	<b>9,990,176</b>	<b>5.10%</b>
Deferred Outflows	939	37	192	56	1,224	1,684	-27.32%
Accrued Accounts Payable	1,297	11,459	5,717	1,653	20,126	14,730	36.63%
Investment Purchases Payable	34	-	7	3	44	5,958	-99.26%
Securities Lending Collateral	441,861	17,537	91,596	25,137	576,131	620,010	-7.08%
Employer Net Position Liabilities	5,399	215	1,107	319	7,040	7,083	-0.61%
<b>Total Plan Liabilities</b>	<b>448,591</b>	<b>29,211</b>	<b>98,427</b>	<b>27,112</b>	<b>603,341</b>	<b>647,781</b>	<b>-6.86%</b>
Deferred Inflows	292	17	87	25	421	876	-51.94%
<b>Net Position</b>	<b>7,617,491</b>	<b>298,474</b>	<b>1,552,303</b>	<b>428,645</b>	<b>9,896,913</b>	<b>9,343,203</b>	<b>5.93%</b>

Net Position are the resources available to pay pension benefits in the future. Net position for all Plans in the PSPRS Trust increased \$553.71 million in fiscal year 2018, an increase of 5.93%.

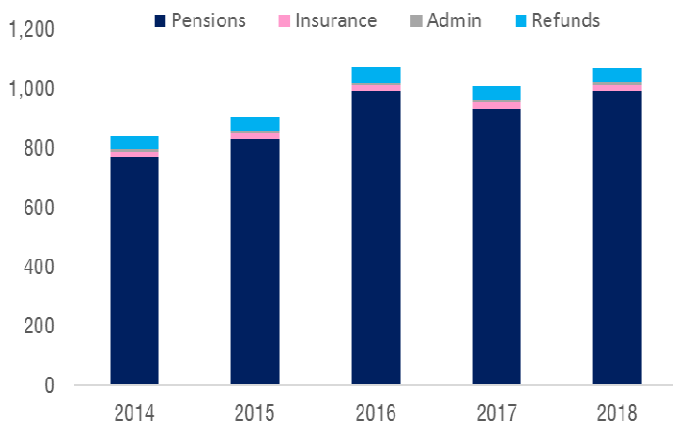
SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - ALL PLANS COMBINED  
(IN THOUSANDS)

ASSET CATEGORY	PSPRS 2018	EORP 2018	CORP 2018	AOC 2018	TOTAL 2018	TOTAL 2017	PERCENT CHANGE
Total Contributions	769,355	20,700	142,771	36,821	969,647	1,045,851	-7.29%
Net Investment Income (Loss)	499,572	21,650	104,791	25,578	651,591	995,526	-34.55%
Transfers and Service Purchases	890	257	345	76	1,568	1,697	-7.60%
<b>Total Additions (Reductions)</b>	<b>1,269,817</b>	<b>42,607</b>	<b>247,907</b>	<b>62,475</b>	<b>1,622,806</b>	<b>2,043,074</b>	<b>-20.57%</b>
Benefits	791,586	65,017	128,477	29,571	1,014,651	956,196	6.11%
Service Transfers and Refunds	15,617	55	26,490	2,207	44,369	46,781	-5.16%
Administrative Expenses	7,711	329	1,631	405	10,076	8,820	14.25%
<b>Total Deductions</b>	<b>814,914</b>	<b>65,401</b>	<b>156,598</b>	<b>32,183</b>	<b>1,069,096</b>	<b>1,011,797</b>	<b>5.66%</b>
Net Increase (Decrease)	454,903	(22,794)	91,309	30,292	553,710	1,031,277	-46.31%
Beginning of Year Net Position	7,162,588	321,268	1,460,994	398,353	9,343,203	8,311,925	12.41%
<b>End of Year Net Position</b>	<b>7,617,491</b>	<b>298,474</b>	<b>1,552,303</b>	<b>428,645</b>	<b>9,896,913</b>	<b>9,343,203</b>	<b>5.93%</b>

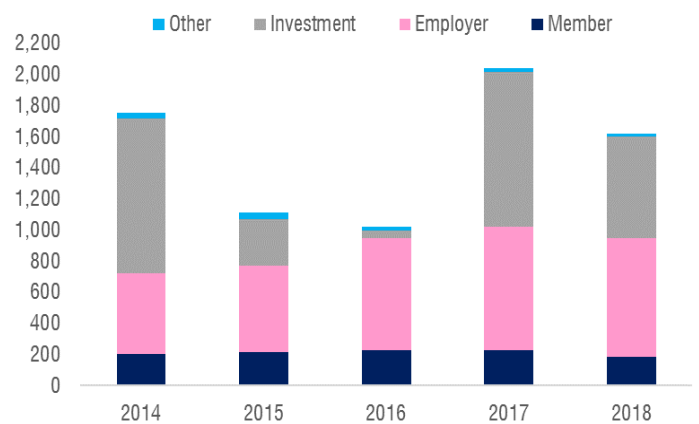
Changes in Net Position summarize the income and expense components of the plan.

Net Investment Income for all Plans in the PSPRS Trust is \$651.59 million for fiscal year 2018.

EXPENSES BY TYPE - ALL PLANS COMBINED  
(IN MILLIONS)



REVENUES BY SOURCE - ALL PLANS COMBINED  
(IN MILLIONS)



## INVESTMENT PERFORMANCE

As we approach the close of 2018, I'm grateful to take a moment to introduce myself as the new Chief Investment Officer of AZ PSPRS. You may know that I've worked on the investment team for over a decade and am proud of the program we've built. However, my approach is markedly different from many of my peers; pragmatism is more important than what others in our industry are doing or what we've always done. As CIO, my priorities are as follows; investment returns, team and individual accountability. Successful organizations require clear objectives, a team with complimentary skills and attributes, and a results-driven organizational culture. I'm thrilled for the next chapter at our investment office and at the Trust.



Mark Steed  
CIO

The Trust earned a time-weighted return of 7.07%, net of fees, for the fiscal year ending June 30, 2018, and ended the fiscal year with a market value of approximately \$9.8 billion. Public and private equity asset investments were the strongest contributors to performance, returning approximately 14% and 12%, respectively, net of fees, for the fiscal year. The Global Trading Strategies portfolio delivered a net return of 7.54% and the core lending program produced a return of 9.9%. Roughly 30% of the Trust's portfolio is invested in assets that will do well if commodity prices and/or interest rates increase. Given the low-inflation/low-interest rate environment that portion of the Trust's portfolio produced lower returns than other asset classes and the Trust's assumed earnings rate albeit above benchmark inflation rates such as the Consumer Price Index.

### OVERVIEW

The Public Safety Personnel Retirement System (the System) is a multi-employer governmental plan acting as an independent trust fund of the State of Arizona. The System and two other governmental plans, the Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP), which collectively, are called the Plans, are administered by a single, nine-member Board of Trustees. By law, the Board administers the Plans through the System's offices. The Plans have created a group trust called the Arizona PSPRS Trust to commingle their assets for purposes of investment.

The Amended and Restated Statement of Investment Policies outlines the goals, objectives and overall governance structure of the investment program. Current policy outlines the following primary objectives:

- Achieve a total return that meets or exceeds the assumed earnings rate
- Achieve a total return that meets or exceeds the Policy Index
- Manage a risk/return ratio in the top-half of peer group

Eligible securities include, but are not limited to, stocks, bonds, public commingled funds, private commingled funds, private single securities and separately managed accounts. The Board delegated day-to-day investment management to the System's Administrator who in turn delegated it to the Chief Investment Officer. The Board also retains an independent investment consultant, as a fiduciary, to assist the Board in developing and modifying the Trust's investment policy.

	INVESTMENT RETURNS (NET OF FEES)			ASSET ALLOCATION (IN THOUSANDS)		
	1 YEAR	3 YEAR	5 YEAR	ASSET CLASS	FAIR VALUE PER FINANCIAL STATEMENTS	ACTUAL ASSET ALLOCATION (% OF FAIR VALUE)
PSPRS Trust Total Fund*	7.07%	6.41%	7.18%	U.S. Equity	1,559,840	15.88%
<i>Balanced Index **</i>	<i>7.74%</i>	<i>6.79%</i>	<i>7.32%</i>	Non-U.S. Equity	1,390,167	14.15%
PSPRS Trust Equity*	10.90%	7.94%	9.04%	Private Equity	1,308,697	13.32%
<i>Equity Benchmark ***</i>	<i>11.28%</i>	<i>8.56%</i>	<i>9.91%</i>	Fixed Income	573,579	5.84%
PSPRS Trust Fixed Income*	1.80%	3.31%	3.64%	Private Credit	1,494,163	15.21%
<i>Fixed Income Index ****</i>	<i>1.36%</i>	<i>2.58%</i>	<i>1.50%</i>	Global Trading Strategies	1,093,905	11.13%
				Real Assets	773,127	7.87%
				Real Estate	828,997	8.44%
				Risk Parity	414,747	4.22%
				Cash and Short-Term Investments †	388,210	3.95%
				<b>Total</b>	<b>9,825,432</b>	<b>100.00%</b>

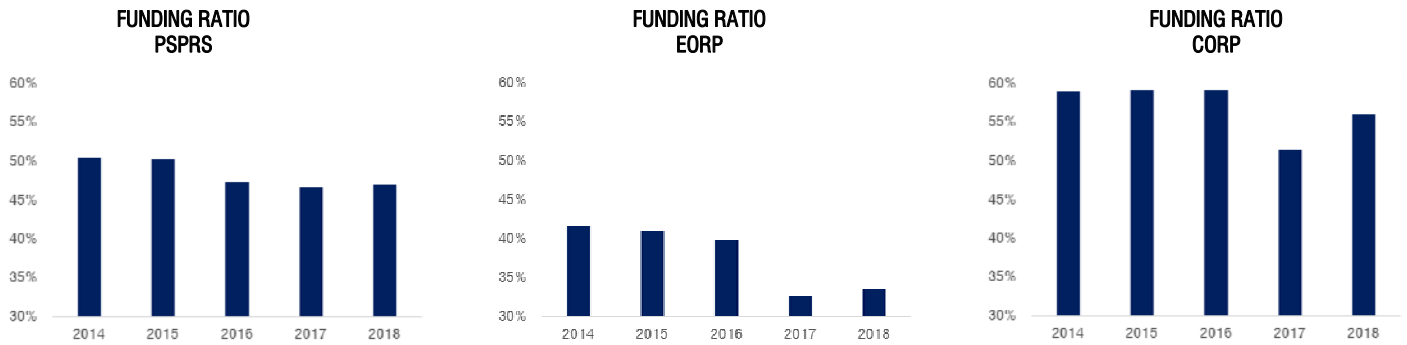
\* Time weighted rate of return based on the market rate of return (net of fees).

\*\* Benchmark: 16% Russell 3000, 14% MSCI World Ex-US Net, 12% Russell 3000 + 100 bps, 5% BC Global Aggregate, 16% Private Credit (fka Credit Opportunities) Benchmark, 12% 3-Month LIBOR + 300 bps, 9% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.

\*\*\* Benchmark: 53.33% Russell 3000 and 46.67% MSCI World Ex-US Net.

\*\*\*\* Benchmark: 100% BC Global Aggregate.

† Includes operating cash.



As the funding ratio of the plan has declined, the aggregate employer contribution rate has escalated.

The PSPRS and CORP employer rates are set in accordance with the results of the annual actuarial valuation.

The EORP employer rate is set by statute.

HISTORICAL TRENDS (IN THOUSANDS)							
SYSTEM/ PLAN	VALUATION JUNE 30,	RATES EFFECTIVE	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO	EMPLOYER RATE (AVG)
PSPRS	2015	07/01/2016	6,533,140	6,447,071	12,980,211	50.3%	42.61%
	2016	07/01/2017	6,878,255	7,674,484	14,552,739	47.3%	52.09%
	2017	07/01/2018	7,395,566	8,484,130	15,879,696	46.6%	52.10%
	2018	07/01/2019	7,786,954	8,797,076	16,584,029	47.0%	52.47%
EORP	2015	07/01/2016	338,431	487,380	825,811	41.0%	23.50%
	2016	07/01/2017	338,033	512,299	850,332	39.8%	23.50%
	2017	07/01/2018	334,747	691,250	1,025,997	32.6%	61.50%
	2018	07/01/2019	307,741	610,536	918,277	33.5%	61.50%
CORP	2015	07/01/2016	1,682,776	1,158,331	2,841,108	59.2%	18.71%
	2016	07/01/2017	1,794,425	1,243,254	3,037,679	59.1%	20.98%
	2017	07/01/2018	1,916,845	1,808,029	3,724,874	51.5%	28.79%
	2018	07/01/2019	2,023,201	1,585,024	3,608,224	56.1%	27.59%

PSPRS, EORP and CORP all show an increase in total retirees and an increase in average pension. These increases contribute to the low funding ratios for each plan.

RETIRANTS AND BENEFICIARIES									
SYSTEM/ PLAN	YEAR ENDED JUNE 30,	MEMBERS REMOVED	MEMBERS ADDED	TOTALS	ANNUAL ALLOW. REMOVED	ANNUAL ALLOW. ADDED	ANNUAL PENSIONS	PERCENT INCREASE	AVERAGE PENSION
PSPRS	2015	184	694	11,034	7,890,225	36,611,404	571,930,508	5.3%	51,833
	2016	219	1,048	11,863	9,945,560	58,950,969	620,935,917	8.6%	52,342
	2017	185	721	12,399	8,838,496	44,008,867	656,106,288	5.7%	52,916
	2018	203	626	12,822	9,804,482	46,021,011	692,322,817	5.5%	53,995
EORP	2015	23	86	1,116	831,841	4,570,428	56,744,053	7.1%	50,846
	2016	51	58	1,123	2,136,634	3,484,310	58,091,729	2.4%	51,729
	2017	22	95	1,196	1,107,668	6,504,316	63,488,377	9.3%	53,084
	2018	38	45	1,203	2,057,381	2,472,912	63,903,908	0.7%	53,120
CORP	2015	69	389	4,410	1,498,665	10,153,781	116,217,259	8.0%	26,353
	2016	100	475	4,785	2,124,616	12,531,785	126,624,428	9.0%	26,463
	2017	86	392	5,091	1,805,076	14,792,334	139,611,686	10.3%	27,423
	2018	112	416	5,395	2,490,811	11,154,085	148,274,960	6.2%	27,484

**STATISTICAL DATA**

SYSTEM/ PLAN	FISCAL YEAR ENDED	ACTIVE MEMBER DATA					
		# ACTIVE MEMBERS	PAYROLL (THOUSANDS)	AGE (YEARS)	SERVICE (YEARS)	AVG. SALARY	INCREASE IN AVG. PAY
PSPRS	2015	18,409	1,401,178	39.7	11.3	76,114	1.4%
	2016	18,706	1,448,215	39.7	11.3	77,420	1.7%
	2017	19,010	1,500,335	39.6	11.2	78,923	1.9%
	2018	18,648	1,487,787	39.7	11.3	79,783	1.1%
EORP	2015	738	61,933	56.2	9.3	83,921	3.5%
	2016	694	57,766	57.0	10.0	83,236	-0.8%
	2017	600	50,878	57.1	10.7	84,796	1.9%
	2018	579	50,939	58.0	11.4	87,978	3.8%
CORP	2015	14,184	616,267	39.5	8.3	43,448	1.4%
	2016	13,846	599,319	39.1	8.3	43,285	-0.4%
	2017	13,958	619,985	39.0	8.3	44,418	2.6%
	2018	14,335	619,270	38.7	8.2	43,200	-2.7%

PSPRS and EORP active membership decreased slightly during fiscal year 2018. CORP active membership increased slightly during fiscal year 2018.

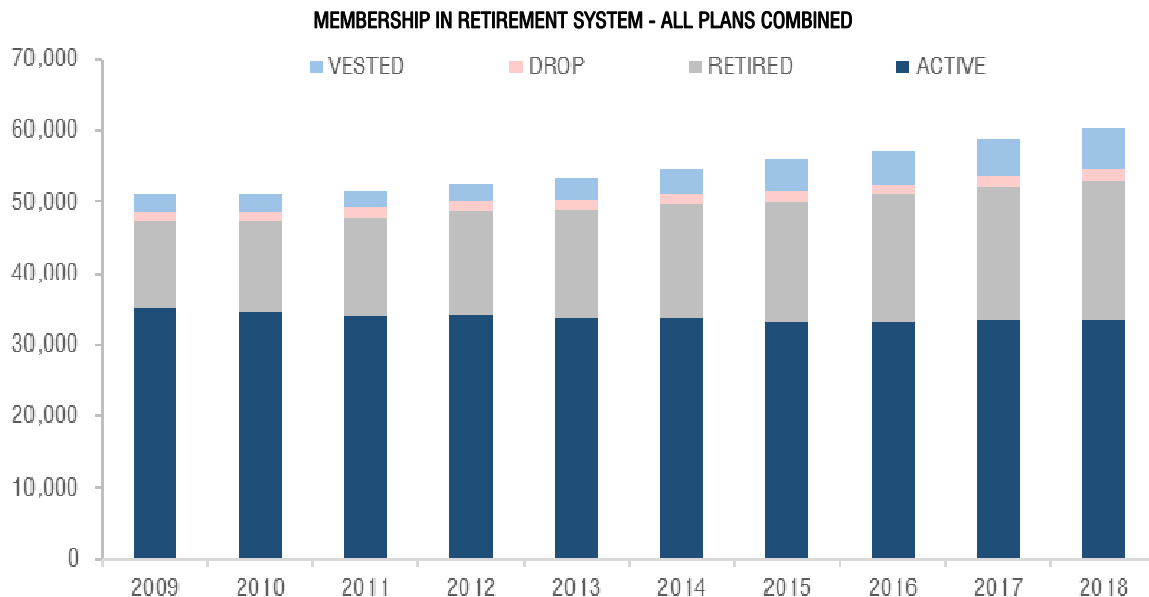
PSPRS and EORP average salary increased slightly during fiscal year 2018. CORP average salary decreased slightly during fiscal year 2018.

SYSTEM/ PLAN	FISCAL YEAR ENDED	RETIRED MEMBER AND SURVIVOR DATA				ANNUAL PENSIONS	AVERAGE PENSION	ACTIVE TO RETIRED
		NORMAL	DISABILITY	SURVIVORS	TOTALS			
PSPRS	2015	8,093	1,516	1,425	11,034	571,930,508	51,833	1.7 to 1
	2016	8,755	1,587	1,521	11,863	620,935,917	52,342	1.6 to 1
	2017	9,166	1,642	1,591	12,399	656,106,288	52,916	1.5 to 1
	2018	9,461	1,705	1,656	12,822	692,322,617	53,995	1.5 to 1
EORP	2015	893	17	206	1,116	56,744,053	50,846	0.8 to 1
	2016	897	18	208	1,123	58,091,729	51,729	0.6 to 1
	2017	964	18	214	1,196	63,488,377	53,084	0.5 to 1
	2018	970	17	216	1,203	63,903,908	53,120	0.5 to 1
CORP	2015	3,702	130	578	4,410	116,217,259	26,353	3.2 to 1
	2016	4,044	136	605	4,785	126,624,428	26,463	2.9 to 1
	2017	4,329	138	624	5,091	139,611,686	27,423	2.7 to 1
	2018	4,588	140	667	5,395	148,274,960	27,484	2.7 to 1

PSPRS retired member total does not include DROP.

PSPRS, EORP and CORP average pensions continue to rise.

PSPRS, EORP and CORP ratio of active members to retired members continue to decline.



## MISSION

The **Purpose** of the Public Safety Personnel Retirement System is to provide *uniform, consistent, and equitable* statewide retirement programs for those who have been entrusted to our care.

This is accomplished through our **Governing Principles** where

A spirit of **Gratitude** guides all our actions, thereby *fostering* a culture of unparalleled *service* to others through which *growth* is nurtured, *progress* is developed, and *results* are achieved.

**Trust** is engendered by *transparency* of our decisions and *accountability* for our actions as measured against sound *expectations*.

We recognize that **Respect** for the *individual* strengthens the *whole* and is only earned by genuinely *understanding* and *fulfilling* the needs of others through *appropriate, timely* and *clear communication* and *education*.

This booklet provides a summary of the data contained in the PSPRS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. The booklet does not contain all the information and schedules necessary to be in conformance with Generally Accepted Accounting Principles (GAAP). However, the CAFR is produced in conformity with GAAP and can be obtained by visiting our website at [www.psprs.com](http://www.psprs.com).

**PUBLIC SAFETY PERSONNEL  
RETIREMENT SYSTEM**  
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SUITE 200  
PHOENIX, AZ 85016-4416