ELECTED OFFICIALS' RETIREMENT PLAN



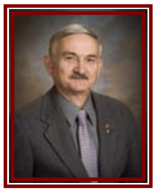
SUMMARY ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA



FOR THE FISCAL YEAR ENDED JUNE 30, 2013


Brian Tobin
Chairman


Gregory Ferguson
Vice Chairman


Jeff McHenry
Trustee


Richard Petrenka
Trustee


Randy Stein
Trustee


Lauren Kingry
Trustee


William Davis
Trustee

BOARD OF TRUSTEES HIGHLIGHTS (BOARD AS OF JUNE 30, 2013)

- Brian Tobin, Chairman, was hired as a Phoenix Firefighter in 1983. He was elected to the United Phoenix Fire Fighters Association as a trustee in 1987. He has been elected to the Phoenix Fire Fighters Pension Board three times. He became Fire Captain in 1994, Battalion Chief in 2004, and Deputy Chief in 2007. *Term expires January 2013.*
- Greg Ferguson, Vice Chairman, is a graduate of Arizona Western College and Northern Arizona University. He retired from the United States Marine Corps in 1994 after 26 years of service, including a tour in Vietnam. He has performed environmental work with the Yuma Proving Ground and the Arizona Department of Environmental Quality. He is currently serving on the Yuma County Board of Supervisors, where he has served as Chairman and Vice Chairman. *Term expires January 2017.*
- Jeff McHenry has been a Tempe Police Officer since 1993, and a Police Sargeant since 2004. He is currently assigned to Patrol and is the President of the Tempe Officers Association. *Term expires January 2016.*
- Richard Petrenka is a graduate of Fairleigh Dickinson University. He served as Arizona Deputy State Treasurer for 16 years. He has also sat on the Boards of the State Water Infrastructure Finance Authority and Greater Arizona Development Authority. *Term expires January 2016.*
- Randie Stein, a graduate of the University of Arizona, has served as a member of the Senate Staff from 1989-1998. She also served as the Acting Executive Director of the Arizona School Facilities Board and was responsible for the initial implementation of the Students FIRST law. *Term expires January 2013.*
- Lauren Kingry is the current Superintendent of the Arizona Department of Financial Institutions. He has also previously held CEO positions at Liberty Bank & Trust, Bank of Scottsdale and Valley Capital Bank. *Term expires January 2016.*
- William Davis is a managing director of the Phoenix public finance group at Piper Jaffray. He provides investment banking and consulting services to many municipal government entities throughout Arizona. He holds the Chartered Financial Analyst designation from the Association for Investment Management and Research . *Term expires January 2017.*

FISCAL YEAR HIGHLIGHTS

- The Public Safety Personnel Retirement System (PSPRS) had a total rate of return of 10.64% this year, which outperformed the benchmark by 56 basis points. Our equity portfolio had a return of 18.22%, which outperformed the equity benchmark by 15 basis points. Our fixed income portfolio had a return of 1.35%, which outperformed the fixed income benchmark by 353 basis points.
- Retirement benefits paid totaled $552.72 million for the current year, compared to $507.18 million for the previous year. This represents a 8.98% increase from the prior year.
- The assets remaining in the Reserve for Future Benefit Increases, which were used to finance retiree benefit adjustments in FY2012 and FY2013, are now depleted.
- The Plan's funding ratio at fiscal year end 2013 was 57.1%, down from 58.6% at fiscal year end 2012. The expectation is that the funding ratio will continue to deteriorate unless the fund experiences several successive years of superior investment returns.

NEW DEVELOPMENTS AND MANAGEMENT INITIATIVES

- Integrating PSPRS Personnel Administration with the requirements of Arizona Department of Administration (ADOA).
- Reorganizing the Investment Department and enhancing its operational procedures. The focus is now on monitoring existing external managers with a reduced need for new manager searches.
- Internal reorganization and staffing. The Health Insurance Department was reincorporated into the Retired Members Department thus providing more staff support to retired members with health insurance issues. A new Deputy CIO for Risk has been hired and a search is underway to screen qualified candidates to fill the position of in-house Investment Counsel.
- Audits, oversight and follow-up action. The AZ Auditor General issued a report with respect to the methodology used in valuing some of the System's real estate assets. Modifications to the System's FY2012 financial statements will be made in order to conform with any recommendations contained in that report. The System's annual audit was completed by Heinfeld Meech & Co. with no significant findings. Internal audit is continuing monthly investment compliance reviews.
- Local board network outreach and support. The System continued its comprehensive effort to assure that the PSPRS and CORP local board networks are properly structured and functioning to assure uniform administration of their statutory responsibilities.
- The staff will complete the planning for and implementation of the new Elected Officials' Defined Contribution Retirement System (EODCRS) using Nationwide Retirement Solutions initially as the third party administrator.

MESSAGE FROM THE ADMINISTRATOR

Jim Hacking
Administrator

Dear Members,

I am pleased to present the EORP Summary Annual Financial Report for the fiscal year ended June 30, 2013. This report provides financial information about the Plan'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.

ACTUARIAL AND FUNDING INFORMATION

Funding a retirement system on a sound actuarial reserve basis involves the accumulation of substantial reserves to guarantee the payment of promised benefits. These reserves are invested and the rate of investment earnings, over time, is a major factor in determining the employer contribution requirement to meet the calculated level cost of the Plan.

The EORP is funded by a statutorily specified member contribution rate (that was 11.5% of gross payroll in FY'13) The Plan's additional funding comes from judicial filing fees, the realized and unrealized returns on the invested assets of the Plan, and from the employer contribution (expressed as a level percent of gross payroll) that has been reset annually, depending on the results of the Plan's actuarial valuation.

The current unsubsidized contribution rate that is paid by participating cities and towns on behalf of their EORP participants is 39.62%. The judicial filing fees that the EORP annually receives subsidize the contribution rate that the state and the counties pay with respect to their EORP participants. The current subsidized rate is 25.94% of payroll. During employer fiscal year 2015, the employer contribution rate will be statutorily fixed at 23.5% of payroll.

The most commonly used measure of a retirement system's funding progress is the ratio of the actuarial value of assets to actuarial accrued liability, often referred to as the "percent funded." The percent funded for the EORP had declined steadily for six consecutive years through FY'07. Following modest improvement in FY'08, the funding ratio started to decline again in FY'09; this trend continued right through FY'13. The primary factor responsible for this negative trend has been the asset value losses that the Plan sustained as a result of poor financial market performance in FY'08, FY'09 and again in FY'12; that poor performance yielded negative rates of return for the EORP. At June 30, 2013 the EORP's funding ratio was only 55.5%. Given the System's seven year averaging of investment results (actuarial "smoothing"), much of the effect of the FY'08, FY'09 and FY'12 asset value losses is yet to be reflected in the funding ratio of the Plan; therefore, the expectation is that the funding ratio will continue to deteriorate further in the future until those asset value loss years drop out of the calculation of the actuarial value of assets. This trend, however, could be ameliorated or even reversed if the EORP has several successive years of superior investment returns.

ENACTED LEGISLATION

During FY'13, the State Legislature approved, and the Governor signed, three bills that were of significance. The first was HB2294 which changed the definition of "elected official" to include full-time superior court commissioners. The second was HB2608, which closes the EORP defined benefit plan to newly elected officials as of January 1, 2014. Thereafter, newly elected officials can elect to participate in the Arizona State Retirement System (ASRS) if they had prior ASRS service; otherwise they will be required to participate in the Elected Officials' Defined Contribution Retirement System (EODCRS). A statutorily fixed employer rate of 23.5% will finance the cost of the closed defined benefit plan (the unfunded liability of which is to be amortized over a thirty year period), the employer contributions required with respect to those who elect to be covered by ASRS and the 6% employer contribution to the defined contribution accounts of those participating in the EODCRS.

REVENUES

Revenues for the Plan are derived from four sources: member contributions, employer contributions, judicial filing fees and realized and unrealized returns on the invested assets of the Plan. As shown by the Schedule of Revenues by Source included in the Statistical Section later in this report, the Plan had an investment gain of $30.7 million this fiscal year. That was augmented by revenue from member contributions of $7.7 million, direct employer contributions of $14.8 million, and judicial filing fees of $8.4 million. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

SUMMARY

I would like to take this opportunity to express my gratitude to the members of the Board of Trustees, the staff, the System's advisors, and all others who have worked so diligently to assure the continued successful operation of the System. I look forward to the challenge of moving the System forward with a program of constructive and comprehensive change that will maintain high quality customer service and restore the PSPRS Plan to a path of improving financial status.

Respectfully submitted,

James M. Hacking
Administrator

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET POSITION

Net Position are the resources available to pay pension benefits in the future. Net position increased $15.04 million in fiscal year 2013.

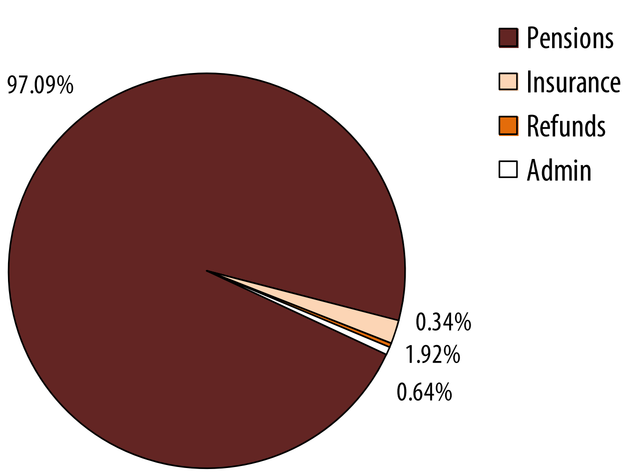
ASSET CATEGORY	YEAR ENDED JUNE 30, 2013	YEAR ENDED JUNE 30, 2012	AMOUNT OF CHANGE	PERCENT CHANGE
Cash and Short-Term Investments	$ 6,154,720	$ 5,898,521	$ 256,199	4.34%
Total Receivables	2,988,764	4,924,794	(1,936,030)	(39.31)%
Total Investments	302,733,751	285,946,488	16,787,263	5.87%
Securities Lending Collateral	9,600,702	5,956,526	3,644,176	61.18%
Net Capital Assets	262,644	277,749	(15,105)	(5.44)%
Total Plan Position	**321,740,581**	**303,004,078**	**18,736,503**	**6.18%**
Accrued Accounts Payable	431,501	468,304	(36,803)	(7.86)%
Investment Purchases Payable	775,704	683,100	92,604	13.56%
Securities Lending Collateral	9,600,702	5,956,526	3,644,176	61.18%
Total Plan Liabilities	**10,807,907**	**7,107,930**	**3,699,977**	**52.05%**
Net Position	**$ 310,932,674**	**$ 295,896,148**	**$ 15,036,526**	**5.08%**

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET POSITION

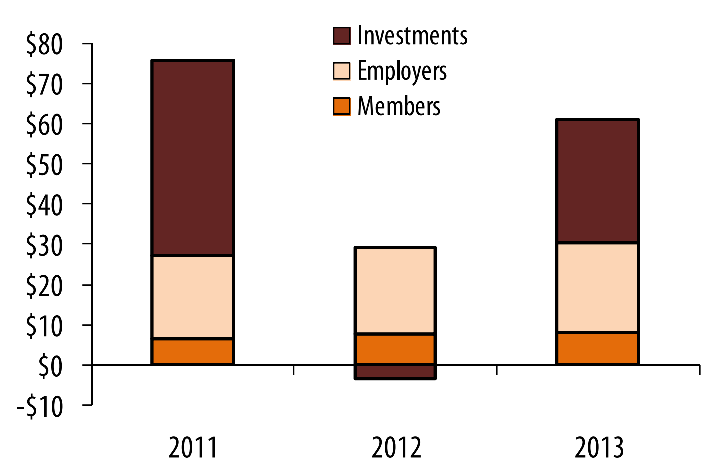
Changes in Net Position summarize the income and expense components of the plan. Net Investment Income increased $34.44 million in fiscal year 2013.

ASSET CATEGORY	YEAR ENDED JUNE 30, 2013	YEAR ENDED JUNE 30, 2012	AMOUNT OF CHANGE	PERCENT CHANGE
Total Contributions	$ 30,214,911	$ 28,345,134	$ 1,869,777	6.60%
Net Investment Income (Loss)	30,737,247	(3,699,929)	34,437,176	930.75%
Transfers IN and Service Purchases	16,871	148,679	(131,808)	(88.65)%
Total Additions (Reductions)	**60,969,029**	**24,793,884**	**36,175,145**	**145.90%**
Benefits	45,472,356	43,536,995	1,935,361	4.45%
Transfers OUT and Refunds	160,455	89,631	70,824	79.02%
Administrative Expenses	299,692	287,772	11,920	4.14%
Total Deductions	**45,932,503**	**43,914,398**	**2,018,105**	**4.60%**
Net Increase (Decrease)	**15,036,526**	**(19,120,514)**	**34,157,040**	**178.64%**
Beginning of Year Net Assets	**295,896,148**	**315,016,662**	**(19,120,514)**	**(6.07)%**
End of Year Net Assets	**$ 310,932,674**	**$ 295,896,148**	**$ 15,036,526**	**5.08%**

EXPENSES BY TYPE



REVENUES BY SOURCE (in millions)



Ryan Parham
Chief Investment Officer

NOTES FROM THE CHIEF INVESTMENT OFFICER

NOT ALL EGGS IN ONE BASKET

Recall from previous years that the historic PSPRS portfolio had a large concentration in U.S. equities. At times more than 70% of the total fund was invested in U.S. large cap stocks. The allowed the fund to perform well when the U.S. stock market went up but also to perform very poorly when the U.S. stock market went down. Today total equity concentration is about 30% of the portfolio and that exposure is broadly diversified. The portfolio has more than 100 external managers deploying an even greater number of different investment strategies. These investments are in 11 different asset classes and literally span the global markets. When some markets are down, others are up. When some strategies lag others are leaders. The net result is a much more complex but also a much more stable portfolio.

LOWER RISK

For the past five years the total volatility of the PSPRS portfolio has been roughly one half that of the equity markets.

Stress tests lead to the conclusion that the PSPRS portfolio might have in the neighborhood of one half as much exposure to undesirable risks as it had five years ago, while maintaining a comparable expected return.

We will certainly deliver a smaller return than other funds that have 50% or 60% equities when the equity markets are strongly rising, but we will have considerably less losses when those equity markets drop precipitously. In the long run a stable return will outperform the more volatile ups and downs by a significant margin.

THE PSPRS TEAM

Our system has benefitted greatly from a talented and dedicated group of current and former employees. The effective efforts of our staff have been joined by several teams of outside consultants positioned in markets around the world that help to monitor, analyze and evaluate current and future investment opportunities. In addition to this reservoir of talent we further benefit from our ongoing active partnerships with some the best and brightest investment organizations in the world. Literally hundreds of people across every time zone and geography combine their efforts to help PSPRS achieve its investment objectives.

CONCLUSION

We continue to make significant progress in building a high performing and resilient portfolio. Greater stability achieving our expected return will over time improve the funding ratios of the plan. Accomplishing these goals in extremely turbulent economic environments is difficult but has helped to demonstrate the greater downside protection of the portfolio.

We have created a portfolio that is designed to protect on the downside and capture most of the upside of the markets. It is designed to earn our assumed earnings rate, not in every year, which as you can see from the markets is virtually impossible, but to earn 7.85% on average over longer time frames.

INVESTMENT RETURNS

	1 YEAR	3 YEAR	5 YEAR
PSPRS Trust Total Fund*	10.64%	8.82%	3.75%
*Balanced Index *****	*10.08%*	*9.96%*	*3.28%*
PSPRS Trust Equity*	18.22%	12.96%	5.07%
*Equity Benchmark ****	*18.07%*	*14.03%*	*4.17%*
PSPRS Trust Fixed Income*	1.35%	3.96%	4.69%
*Fixed Income Index *******	*-2.18%*	*3.55%*	*3.68%*

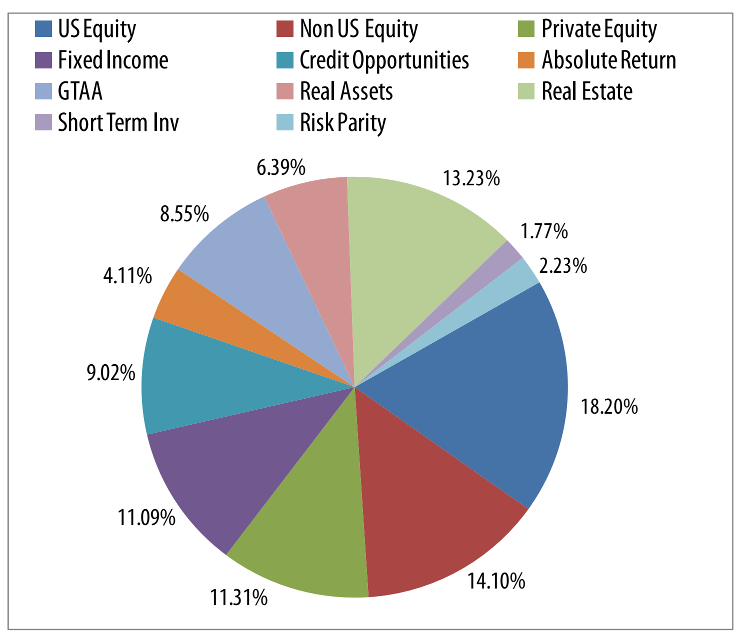
* Time weighted rate of return based on the market rate of return (net of fees).

** Benchmark: 18% Russell 3000, 14% MSCI World Ex-US Net, 9% Russell 3000 + 100 bps, 12% BC Global Aggregate, 12% Credit Opportunities Benchmark, 4% BofA ML 3-Month T-Bill + 200 bps, 8% 3-Month LIBOR + 300 bps, 7% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.

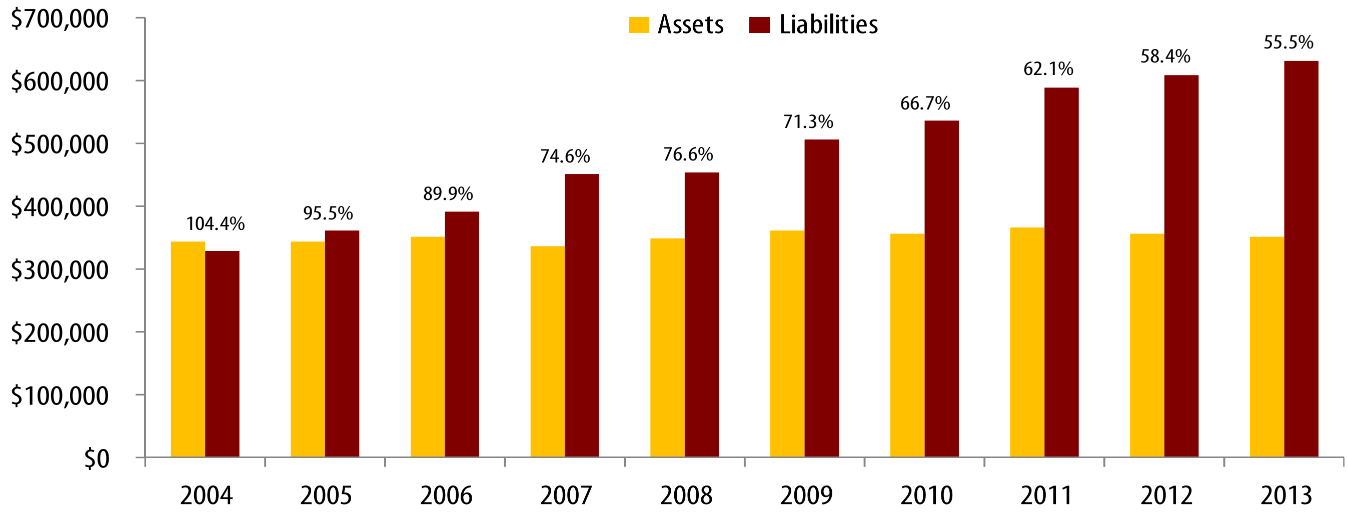
*** Benchmark: 57.14% Russell 3000, and 42.86% MSCI World Ex-US.

**** Benchmark: 100% BC Aggregate.

ASSET ALLOCATION



FUNDING PROGRESS
(IN MILLIONS)



SUMMARY OF EXPERIENCE GAIN (LOSS)

According to this schedule the Unfunded Actuarial Liability increased by $15.01 million during fiscal year 2013.

CATEGORY	2013	2012	2011	2010	2009
UAAL Start of Year	253,882,794	223,892,206	178,428,708	145,240,148	106,327,161
Normal Cost	17,385,156	16,816,095	17,330,114	17,194,500	16,496,846
Funding Method Contributions	31,099,560	29,408,781	28,330,985	(23,883,518)	(21,965,744)
Interest Accrual	19,762,049	17,951,659	14,698,903	12,061,129	8,805,381
Expected UAAL Before Changes	259,930,439	229,251,179	182,126,740	150,612,259	109,663,644
Change From Benefit Increases	-	-	8,290,257	12,367,914	11,319,196
Change in Actuary Methods	6,715,993	6,140,577	26,696,195	-	12,482,467
Change in Future Benefit Increase Reserve	-	-	(7,663,738)	3,116,481	(16,196,206)
Expected UAAL After Changes	266,646,432	235,391,756	209,449,454	166,096,654	117,269,101
Actual UAAL	281,652,280	253,882,794	223,892,206	178,428,708	145,240,148
Gain (Loss)	(15,005,848)	(18,491,038)	(14,442,752)	(12,332,054)	(27,971,047)

HISTORICAL TRENDS (+000)

As the funding ratio of the plan has declined, the aggregate employer contribution rate has escalated. The employer rate is set in accordance with the results of the annual actuarial valuation. The employee rate is fixed by statute.

VALUATION JUNE 30,	FISCAL YEAR	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO	EMPLOYER RATE (AVG)	EMPLOYEE RATE
2004	2006	343,376	(14,455)	328,921	104.4%	20.54%	7.00%
2005	2007	344,604	16,154	360,758	95.5%	18.55%	7.00%
2006	2008	351,701	39,702	391,403	89.9%	20.21%	7.00%
2007	2009	336,717	114,582	451,299	74.6%	28.00%	7.00%
2008	2010	348,013	106,327	454,341	76.6%	26.25%	7.00%
2009	2011	360,950	145,240	506,190	71.3%	29.79%	7.00%
2010	2012	357,342	178,429	535,771	66.7%	32.99%	10.00%
2011	2013	366,429	211,397	577,827	63.4%	36.44%	11.50%
2012	2014	356,346	253,883	610,229	58.4%	39.62%	13.00%
2013	2015	350,885	281,652	632,537	55.5%	57.49%	13.00%

STATISTICAL DATA

Jared Smout
Deputy Administrator

ACTIVE MEMBER DATA

FISCAL YEAR ENDED	ACTIVE MEMBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVG. PAY	INCREASE IN AVG. PAY
2004	767	50,624	53.5	8.0	66,003	0.4%
2005	781	53,450	53.8	7.8	68,436	3.7%
2006	800	54,696	54.3	8.3	68,370	(0.1)%
2007	813	61,308	54.4	8.3	75,409	10.3%
2008	824	62,184	54.6	8.4	75,474	0.1%
2009	857	67,777	54.6	8.1	79,086	4.8%
2010	827	66,442	55.1	8.5	80,341	1.6%
2011	845	66,637	54.6	8.0	78,860	(1.8)%
2012	845	67,934	55.3	8.5	80,395	1.9%
2013	839	67,505	54.9	8.0	80,459	0.1%

Active membership decreased slightly during fiscal year 2013.

RETIRED MEMBER AND SURVIVOR DATA

FISCAL YEAR ENDED	NORMAL	DISABILITY	SURVIVORS	TOTALS	ANNUAL PENSIONS	AVERAGE PENSION	RATIO OF ACTIVE TO RETIRED
2004	565	20	145	730	23,854,186	32,677	1.1 to 1
2005	600	18	151	769	26,112,301	33,956	1.0 to 1
2006	615	19	163	797	28,044,340	35,187	1.0 to 1
2007	651	20	155	826	30,380,250	36,780	1.0 to 1
2008	688	16	168	872	32,850,340	37,672	0.9 to 1
2009	708	15	182	905	36,262,571	40,069	0.9 to 1
2010	723	16	182	921	39,337,025	42,711	0.9 to 1
2011	785	16	189	990	43,461,664	43,901	0.9 to 1
2012	785	14	193	992	43,910,140	44,264	0.9 to 1
2013	842	15	200	1,057	47,203,698	44,658	0.8 to 1

SUMMARY OF BENEFIT INCREASES

FISCAL YEAR ENDED	EXCESS YIELD PER STATUTE	EXCESS EARNINGS	RESERVE UTILIZED	EXCESS EARNINGS AVAILABLE	BENEFIT INCREASE 4% CAP
2004	6.02%	12,292,877	(5,958,472)	27,718,251	4.00%
2005	0.56%	1,271,696	(8,027,464)	23,611,516	4.00%
2006	-	-	(8,946,622)	16,523,120	4.00%
2007	8.01%	20,886,734	(9,392,556)	30,827,881	4.00%
2008	-	-	(10,302,702)	18,184,418	4.00%
2009	-	-	(11,319,196)	3,637,670	4.00%
2010	4.47%	15,303,303	(12,367,914)	7,063,353	4.00%
2011	-	-	(8,278,220)	-	2.47%
2012	-	-	-	-	-
2013	-	-	-	-	-

Benefit increases are dependent upon an available balance in the Plan's excess earnings reserve. The reserve has been depleted.

VISION	MISSION	VALUES
• Invest, secure and manage responsibly the retirement funds of its members in accordance with all legal, investment and financial requirements and in a manner consistent with the quality to which its members have become accustomed.	• To be a low cost, highly personalized quality service provider of funds management and benefit services. • To manage long-term investments with the goal of consistently outperforming over time the composite weighted market return benchmark net of all investment related costs so as to assure the financial integrity of the funds and the security of the benefits these funds provide.	• Do what is best for our members and financial health and integrity of the System. • Be proactive. • Committed to high quality, uniform, sustainable service. • Innovative and cost effective in Plan administration and services. • Use best practices in HR management.

This booklet provides a summary of the data contained in the EORP Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. 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.

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

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