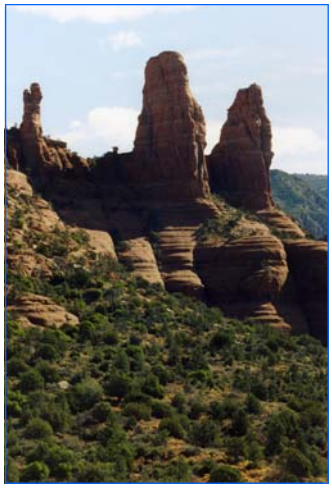
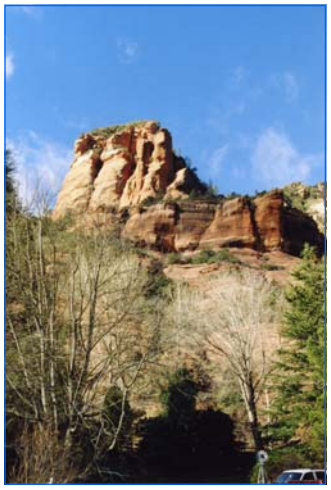
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM





SUMMARY ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Carter Olson
Chairman

FUND MANAGER HIGHLIGHTS (BOARD AS OF JUNE 30, 2009)

- Carter Olson, Esq., a board member since 2003, was first elected to the position of Chairman at the September 20, 2005, meeting of the Fund Manager and reelected to the position in September, 2006. Carter is the former Pinal County Attorney and is currently a Superior Court Judge in Pinal County.

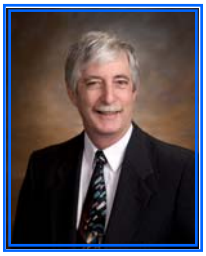
- Mike Galloway, who was appointed as a member of the Fund Manager in July of 2007, founded Galloway Asset Management, LLC to serve the financial needs of Police Officers and Firefighters. Prior to becoming a financial planner, he served in the United States Marine Corp and is a retired lieutenant from the Mesa AZ Police Department.

Mike Galloway
Vice Chairman

- Tim Dunne, a financial advisor with UBS Financial Services in Tucson, was appointed as a member of the Fund Manager in December of 2007. He earned a BS degree in Psychology and taught the emotionally disturbed for over two years in New York. He established a private counseling agency and later changed to the financial services industry upon achieving a securities license.

- Lori Roediger, a graduate of the University of Arizona with a BS in Business Administration was appointed as a member of the Fund Manager in February of 2008. She moved to San Francisco to pursue a career in finance. She became the Senior Investment Officer for the Federal Home Loan Bank and was later hired by JP Morgan where she was the first salesperson to be made a partner in the history of the firm.

- Brian Tobin, who was appointed as a member of the Fund Manager in November of 2008, 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.



Tim Dunne
Member

FISCAL YEAR HIGHLIGHTS

- The Public Safety Personnel Retirement System (PSPRS) had a total rate of return of (17.73)% this year. Our equity portfolio had a return of (21.84)%, which outperformed the equity benchmark by 538 basis points. Our fixed income portfolio had a return of (1.62)%, which underperformed the fixed income benchmark by 682 basis points.

- As of the close of the fiscal year 2009, the Future Benefit Increase Reserve was $285.6 million. This should be sufficient to assure another post-retirement adjustment of $146.74 for qualifying retirees or their survivors beginning on July 1, 2010.

- Retirement benefits paid totaled $444.3 million for the current year, compared to $418.4 for the previous year. This represents a 6.2% increase from the prior year.

Lori Roediger
Member

- The System retained CORTEX Applied Research to conduct a complete review of the PSPRS Governance Policies; the Fund Manager approved the CORTEX recommended modifications. The System's normal practice is to have its Governance Policies reviewed in their entirety every three years.

- The System's staff, with the assistance of a consultant acting in the role of facilitator, undertook and completed before fiscal year-end a project designed to document all of the policies and procedures in use within the organization. There were well over 300 policies and procedures documented; these will now be subject to systematic audit by the System's new internal auditor and compliance officer in order to identify any deficiencies or weaknesses in our controls environment.

- The System conducted an RFP process to secure a new Investment Consultant and Retained Actuary to serve as advisors to the Fund Manager. New England Pension Consultants (NEPC) was retained for the Investment Consultant role; Gabriel, Roeder, Smith & Co. (GRS) was retained as the new actuary.

Brian Tobin
Member

- The System initiated a comprehensive and multi-year effort to assure that the PRPRS local board network is properly structured and functioning so as to assure uniform administration of the statutory responsibilities delegated to the local boards. Staff and other resources were dedicated to this initiative. In addition, the System's outreach efforts to provide training and education to local board members were intensified through on-site visits, group meetings/consultations, the development of training modules which were made accessible through the PSPRS web site, and the publication of a monthly local board newsletter.

MESSAGE FROM THE ADMINISTRATOR

Jim Hacking
Administrator

Dear Members,

I am pleased to present the PSPRS Summary Annual Financial Report for the fiscal year ended June 30, 2009. 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.

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 PSPRS Plan is funded through a statutory member contribution of 7.65% of gross payroll, an employer contribution that is expressed as a level percent of gross payroll and reset annually, depending on the results of the Plan's actuarial valuation, fire insurance premium tax revenues and the realized and unrealized returns on the invested assets of the Plan. The firefighter groups receive a percentage of the fire insurance premium tax revenues, which underwrites a portion of their employer contributions.

While each employer has a different contribution rate, depending on the liability for its group of participating employees, the current aggregate rate for the contributing employers is 20.77%. The aggregate rate that will take effect on July 1, 2010 will be 20.89%. This new aggregate rate, while slightly higher than the current rate, is not as high as originally anticipated, given that the System had a (17.7%) rate of return on its invested assets during FY'09.

While there is no single all-encompassing test to measure a retirement system's funding progress and current status, the most commonly used measure 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 PSPRS Plan had been declining for six consecutive years through FY'07. At that point in time, the Plan's funding ratio was 66.4%. At June 30, 2008, the ratio was 66.5%. As of June 30, 2009, the funding ratio is 68.2%. However, if the funding ratio were calculated using FY'09 year-end market value of assets, rather than the actuarial value of assets, the PSPRS Plan's funding ratio would only be 47.90%. This means that the effects of the FY'09 (17.7%) return will remain with us for the next several years and will adversely affect the Plan's financial status going forward. Hopefully, the System will experience better-than-expected rates of return in future years that will more than offset the negative FY'09 return.

POST RETIREMENT BENEFIT INCREASES

State law provides for an annual benefit increase for PSPRS Plan retirees (or their survivors) two years after retirement, regardless of age, or when the retiree (or survivor) attains age 55 and has been retired for a year. These increases are limited to four percent of the average benefit being paid at the end of the prior fiscal year. These post retirement increases are funded from a portion of the investment returns in excess of 9%. These assets are accumulated in the PSPRS Plan's Reserve for Future Benefit Increases. These reserve assets are invested along with all other assets of the Plan. The Reserve balance, after subtracting the $125.7 million needed to fund the present value of the July 1, 2009 post retirement increase, was $285.6 million. Thus, despite the fact that no new assets flowed into the Reserve in FY'09 due to the System's negative rate of investment return, the Reserve balance should be sufficient to assure that another post-retirement adjustment at the statutory maximum will take effect on July 1, 2010.

ENACTED LEGISLATION

During FY'09 the State Legislature approved, and the Governor signed, an administrative bill that amends the statutes that govern the PSPRS Plan in order to bring the Plan's provisions into compliance with the requirements of the Internal Revenue Code and Regulations and with other relevant federal laws such as the Uniformed Services Employment and Reemployment Rights Act (USERRA) and the Heroes Earnings Assistance and Relief Tax Act (the "HEART Act").

SUMMARY

I would like to take this opportunity to express my gratitude to the members of the Fund Manager, 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 ASSETS

Net Assets are the resources available to pay pension benefits in the future. Net assets decreased $903,579,576 in fiscal year 2009 due to negative market conditions.

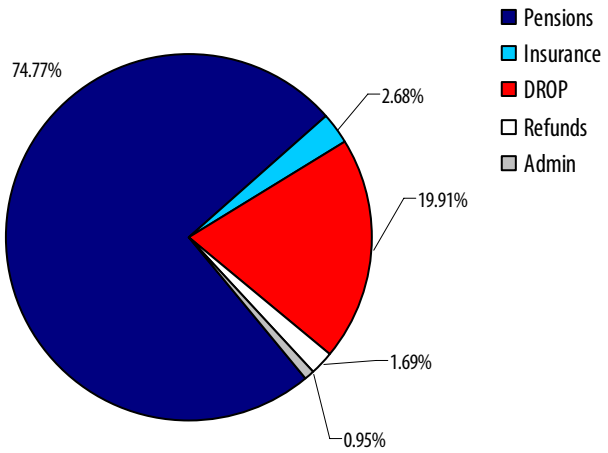
ASSET CATEGORY	YEAR ENDED JUNE 30, 2009	YEAR ENDED JUNE 30, 2008	AMOUNT OF CHANGE	PERCENT CHANGE
Cash and Equivalents	$ 73,792,458	$ 95,337,425	$ (21,544,967)	(22.60%)
Total Receivables	25,983,713	129,520,831	(103,537,118)	(79.94%)
Total Investments	4,021,324,149	4,846,482,420	(825,158,271)	(17.03%)
Securities on Loan	632,722,191	1,028,901,529	(396,179,338)	(38.51%)
Net Capital Assets	3,943,081	4,162,362	(219,282)	(5.27%)
Total Plan Assets	**4,757,765,592**	**6,104,404,567**	**(1,346,638,975)**	**(22.06%)**
Accrued Accounts Payable	650,069	1,059,500	(409,431)	(38.64%)
Investment Purchases Payable	8,692,211	55,162,840	(46,470,630)	(84.24%)
Securities Lending Collateral	632,722,191	1,028,901,529	(396,179,338)	(38.51%)
Total Plan Liabilities	**642,064,470**	**1,085,123,869**	**(443,059,399)**	**(40.83%)**
Net Assets	**$ 4,115,701,122**	**$ 5,019,280,698**	**$ (903,579,576)**	**(18.00%)**

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

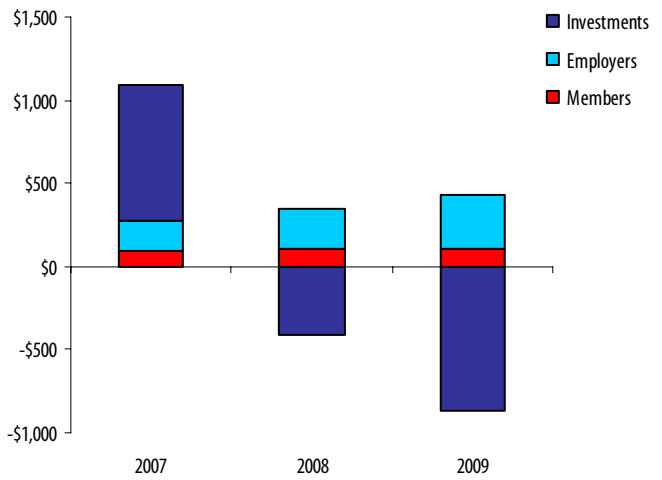
Changes in Net Assets summarize the income and expense components of the plan. Net Investment Income decreased 112.10% in fiscal year 2009 due to negative market conditions.

ASSET CATEGORY	YEAR ENDED JUNE 30, 2009	YEAR ENDED JUNE 30, 2008	AMOUNT OF CHANGE	PERCENT CHANGE
Total Contributions	$ 425,031,518	$ 328,372,566	$ 96,658,952	29.44%
Net Investment Income	(872,798,642)	(411,505,523)	(461,293,119)	(112.10%)
Miscellaneous Income	584,336	1,696,455	(1,112,120)	(65.56%)
Total Additions	**(447,182,788)**	**(81,436,502)**	**(365,746,286)**	**(449.12%)**
Benefits	444,352,210	418,385,315	25,966,895	6.20%
Refunds to Terminated Members	7,692,371	8,029,317	(336,946)	(4.19%)
Administrative Expenses	4,352,207	4,661,876	(309,670)	(6.64%)
Total Deductions	**456,396,788**	**431,076,508**	**25,320,278**	**5.87%**
Net Increase (Decrease)	(903,579,576)	(512,513,010)	(391,066,566)	(76.30%)
Beginning of Year Net Assets	5,019,280,698	5,531,793,708	(512,513,010)	(9.26%)
End of Year Net Assets	**$ 4,115,701,122**	**$ 5,019,280,698**	**$ (903,579,576)**	**(18.00%)**

EXPENSES BY TYPE



REVENUES BY SOURCE (in millions)



NOTES FROM THE CHIEF INVESTMENT OFFICER

Ryan Parham
Chief Investment Officer

2008-2009 THE "MELTDOWN" OF THE GLOBAL FINANCIAL SYSTEM

After the previous "dot com" valuation bubble, the PSPRS board, staff and consultants began the process of expanding the PSPRS core investment strategy. That process, which includes moving away from our historical overreliance upon U.S. equities, helped PSPRS to more reliably weather the tremendous volatility of the 2008-2009 fiscal year. PSPRS achieved returns which were better than many public funds of similar size, better than most endowments during the year and which exceeded our benchmark by several hundred basis points. Asset allocation changes toward greater diversity helped reduce the volatility we otherwise would have experienced during this global economic shock and recession.

ALTERNATIVE INVESTMENTS

As of year end PSPRS had deployed capital into almost 50 Alternative investments including exposures in:

US Private Equity	US Venture Capital
US Real Estate	International Real Estate
European Private Equity	Real Assets (Including Timber)
Dislocated Debt	Core Capital Assets
US Infrastructure	European Infrastructure

EXPANDING CAPABILITIES

In addition to expanding and enhancing our due diligence capabilities the System has continued to utilize and expand the services of three specialist external consulting groups: ORG Real Property, Albourne America LLC, and StepStone Group LL. These are in addition to NEPC, the Fund's generalist consultant.

GOALS AND OBJECTIVES

In the coming year the Investment Staff expects to:

- Review our Asset Allocation Study which will utilize current capital market assumptions reflecting continuing changes in the global economic landscape;
- Continue deployment in alternatives including capitalizing on opportunities in the secondary markets;
- Add alpha seeking strategies to current index-like exposures in public securities, which are attractive on a risk adjusted basis;
- Continue to deploy portions of the portfolio to external managers so as to capture attractive investment strategies which are difficult or impossible to replicate internally.

INVESTMENT RETURNS

	1 YEAR	3 YEAR	5 YEAR
Total Fund	(17.73)%	(3.70)%	1.09%
Rank*	58	76	88
Benchmark**	(21.13)%	5.05%	(1.18)%
Rank*	83	96	100
Median Public Fund	(16.6)%	(2.3)%	2.4%
PEER COMPARISON			
ASRS***	(18.1)%	(3.8)%	1.2%
COPERS****	(20.43)%	(4.20)%	0.85%

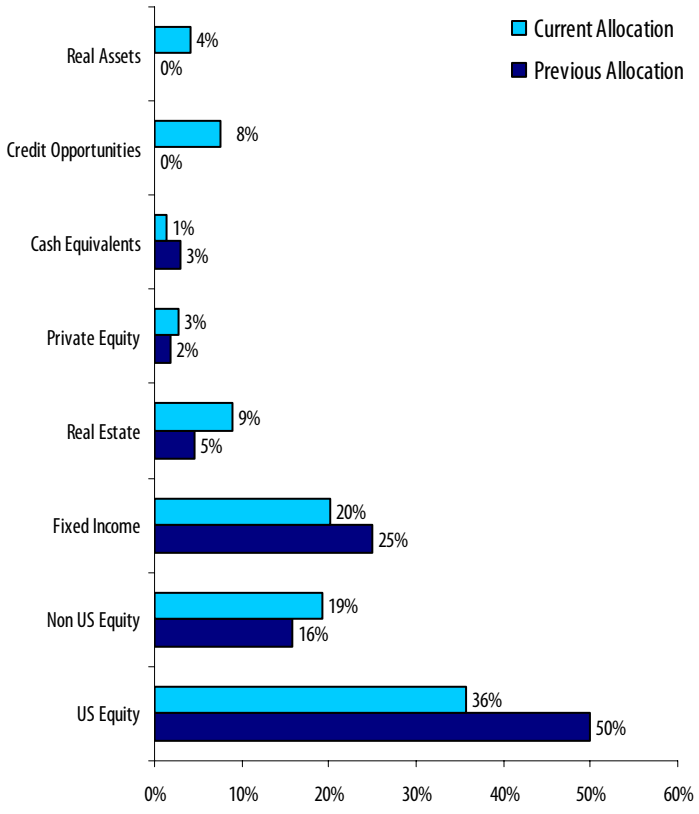
* Rank and Median Fund returns are obtained from a universe of public funds provided by Mellon Analytical Services (Rank 1 = Best, Rank 100 = Worst)

** Benchmark 07/01/08-03/31/09: 46% Wilshire 500, 21% MSCI World Ex-US, 20% Lehman Gov/Credit, 6% NCREIF NPI, 6% Wilshire 5000+300bps, and 1% 91-Day Treasury Bill. Benchmark 04/01/09-06/30/09: 30% Russell 3000, 20% MSCI World Ex-US, 20% BC Capital Aggregate, 8% NCREIF NPI, 8% Russell 3000+100bps, 8% ML US High Yield BB-B Rated Constrained, 5% CPI+200bps, and 1% 91-Day Treasury Bill.

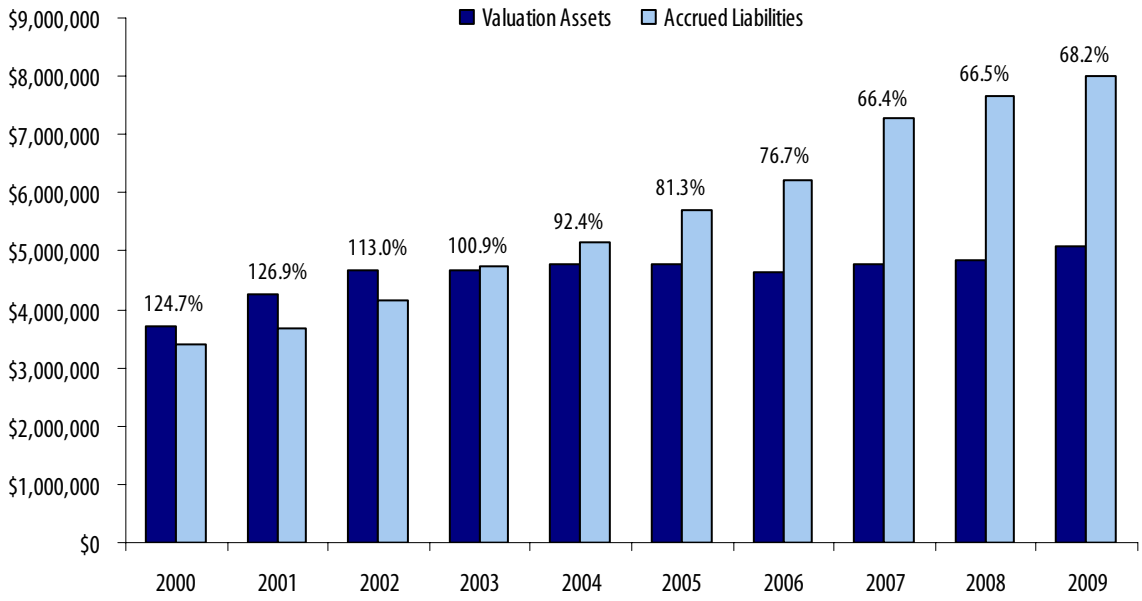
*** Arizona State Retirement System

**** City Of Phoenix Employees Retirement System

ASSET ALLOCATION



FUNDING PROGRESS
(IN THOUSANDS)



SUMMARY OF EXPERIENCE GAIN (LOSS) (+000)

According to this schedule the Unfunded Actuarial Liability increased by $176.1 million during fiscal year 2009.

CATEGORY	2009	2008	2007	2006	2005
UAAL Start of Year	$ 2,567,134	$ 2,438,770	$ 1,495,101	$ 1,064,974	$ 393,020
Normal Cost	275,342	245,345	202,848	174,535	175,547
Funding Method Contributions	(429,620)	(330,713)	(262,217)	(202,835)	(180,607)
Interest Accrual	211,650	203,667	124,561	89,320	34,168
Expected UAAL Before Changes	2,624,506	2,557,069	1,560,293	1,125,994	422,128
Change From Amendments	none	none	none	none	none
Change From Assumption Revision	(256,624)	none	238,919	(79,201)	134,252
Expected UAAL After Changes	2,367,882	2,557,069	1,799,212	1,046,793	556,380
Actual UAAL	2,543,954	2,567,134	2,438,770	1,495,101	1,064,974
Gain (Loss)	(176,072)	(10,065)	(639,558)	(448,308)	(508,594)
% of Actuarial Accrued Liability	(2.3)%	(0.1)%	(9.8)%	(7.5)%	(9.8)%

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.

FISCAL YR ENDED	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO	EMPLOYER RATE (AVG)	EMPLOYEE RATE
2000	4,260,168	(845,011)	3,415,157	124.7%	5.29%	7.65%
2001	4,661,941	(987,183)	3,674,758	126.9%	5.21%	7.65%
2002	4,684,386	(540,175)	4,144,211	113.0%	4.21%	7.65%
2003	4,781,377	(41,764)	4,739,613	100.9%	3.75%	7.65%
2004	4,774,313	393,020	5,167,333	92.4%	7.66%	7.65%
2005	4,886,963	985,773	5,872,736	81.3%	10.05%	7.65%
2006	4,999,911	1,495,101	6,495,012	76.7%	12.80%	7.65%
2007	4,829,521	2,438,770	7,268,291	66.4%	13.83%	7.65%
2008	5,095,645	2,567,134	7,662,779	66.5%	16.52%	7.65%
2009	5,445,497	2,543,954	7,989,451	68.2%	21.71%	7.65%

STATISTICAL DATA

Tracey Peterson
Assistant Administrator
Chief Operations Officer

ACTIVE MEMBER DATA

FISCAL YEAR ENDED	ACTIVE MEMBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVG. PAY	INCREASE IN AVG. PAY
2000	14,886	$ 751,280	37.7	10.0	$ 50,469	4.5%
2001	15,473	$ 826,740	37.2	10.0	$ 53,431	5.9%
2002	15,557	$ 854,249	36.9	9.4	$ 54,911	2.8%
2003	15,530	$881,285	37.0	9.5	$ 56,747	3.3%
2004	15,852	$911,718	37.1	9.5	$ 57,514	1.4%
2005	16,317	$974,863	37.6	9.5	$ 59,745	3.9%
2006	17,324	$1,073,685	37.4	9.0	$ 61,977	3.7%
2007	18,624	$1,228,037	37.3	8.9	$ 65,903	6.3%
2008	19,912	$1,383,332	37.3	8.9	$ 69,472	5.4%
2009	19,867	$1,415,643	37.8	9.4	$ 71,256	2.6%

Active membership decreased slightly during fiscal year 2009.

RETIRED MEMBER AND SURVIVOR DATA

FISCAL YEAR ENDED	NORMAL	DISABILITY	SURVIVORS	TOTALS	ANNUAL PENSIONS	AVERAGE PENSION	RATIO OF ACTIVE TO RETIRED
2000	3,938	763	741	5,442	$ 152,227,372	$ 27,973	2.7 to 1
2001	4,182	826	774	5,782	$ 170,281,580	$ 29,450	2.7 to 1
2002	4,315	872	802	5,989	$ 184,212,972	$ 30,759	2.6 to 1
2003	4,419	912	853	6,184	$ 207,616,176	$ 33,573	2.5 to 1
2004	4,563	942	891	6,396	$ 224,162,361	$ 35,047	2.5 to 1
2005	4,733	1,012	943	6,688	$ 244,294,740	$ 36,527	2.5 to 1
2006	4,935	1,061	978	6,874	$ 265,826,712	$ 38,671	2.5 to 1
2007	5,625	1,128	880	7,633	$ 307,657,629	$ 40,306	2.4 to 1
2008	5,986	1,195	1,060	8,241	$ 342,845,751	$ 41,602	2.4 to 1
2009	6,307	1,211	1,091	8,609	$ 379,007,918	$ 44,025	2.3 to 1

Does not include DROP.

SUMMARY OF BENEFIT INCREASES

FISCAL YEAR ENDED	EXCESS YIELD PER STATUTE	EXCESS EARNINGS	RESERVE UTILIZED	EXCESS EARNINGS AVAILABLE	BENEFIT INCREASE 4% CAP
2000	3.31%	$ 72,225,529	$ (47,639,499)	$ 862,440,738	$ 93.24
2001	-	-	$ (54,178,336)	$ 662,898,016	$ 98.17
2002	-	-	$ (61,603,276)	$ 502,456,646	$ 102.53
2003	-	-	$ (67,995,889)	$ 468,125,352	$ 111.90
2004	5.97%	$ 107,495,840	$ (77,066,484)	$ 568,619,029	$ 116.82
2005	0.11%	$ 2,198,002	$ (85,121,958)	$ 537,513,325	$ 121.76
2006	-	-	$ (91,412,190)	$ 490,714,741	$ 127.06
2007	8.05%	$ 190,317,350	$ (101,767,604)	$ 662,931,350	$ 134.34
2008	-	-	$ (114,771,709)	$ 499,951,273	$ 138.66
2009	-	-	$ (125,721,193)	$ 285,613,717	$ 146.74

Benefit increases are dependent upon an available balance in the System's excess earnings reserve.

Excess earnings are accrued when the investment return is greater than 9.0%.

VISION

- 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.

MISSION

- 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.

VALUES

- 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 PSPRS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. 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.

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