

# PSPRS Local Board & Employer Seminar

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*Mark Steed*

*Chief Investment Officer*



# Recent News

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- New Chief Investment Officer announced in September
- Voters pass propositions 124 (2016) and 125 (2018) changing future liabilities by adjusting the cost-of-living calculation for all three plans



# Key Objectives

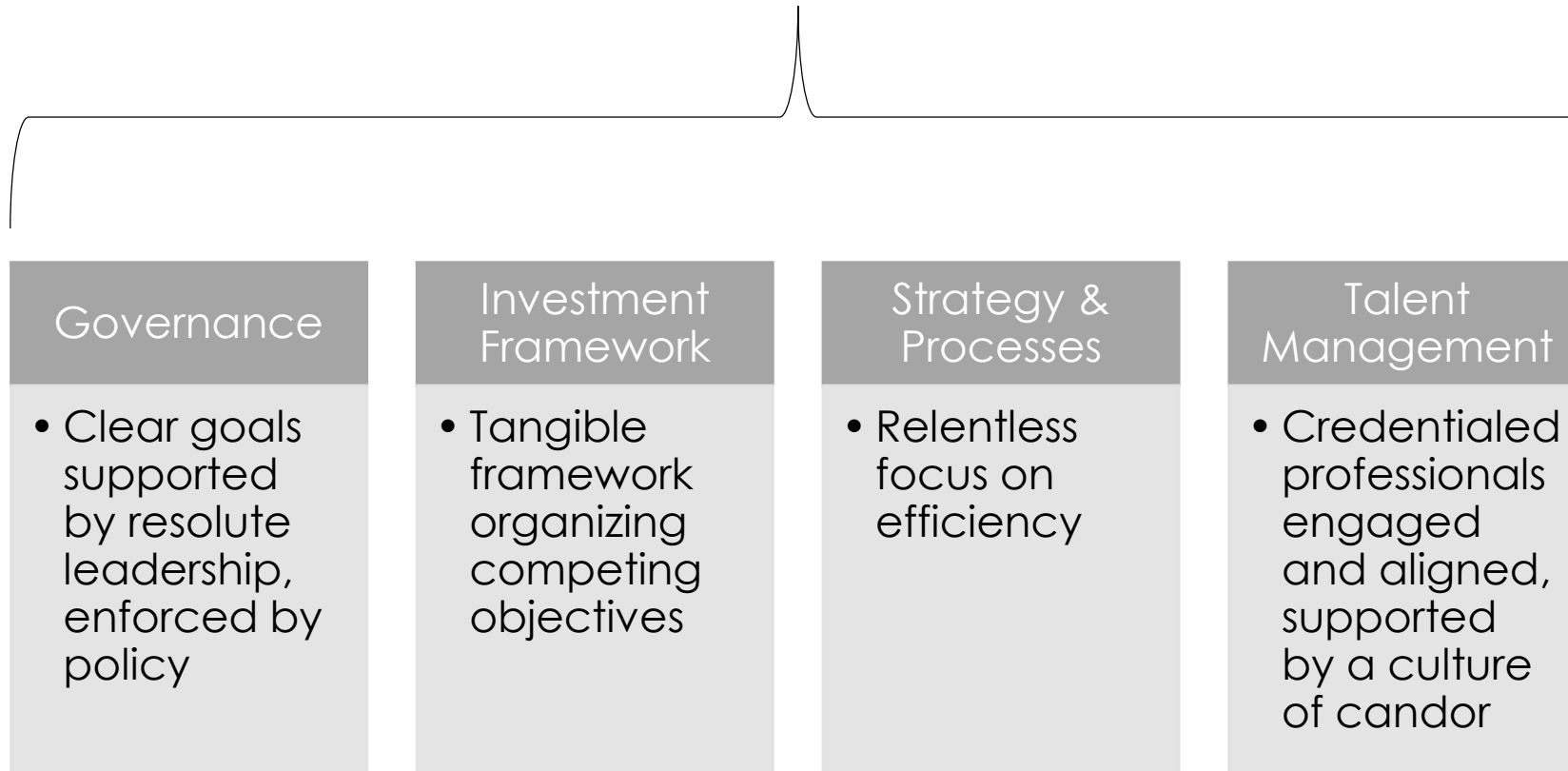
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- Continue to improve the PSPRS portfolio
  - Operate within identified risk level
  - Maximize investment returns
- Bring employer contribution rates down
- Increase funding levels and fund stability
- Make money
- Don't lose money



# Organizational Strategy

Make good decisions and achieve better outcomes (and do it as cheaply as possible)



# How to think about risk

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How and why the values of assets can change

- The value of assets – like stocks – begins from a rational standpoint
  - All known factors, or “assumptions” are “baked in” – corporate earnings, interest rates, fiscal stimulus, etc.
- External forces – technological innovation, consumer tastes, business cycles, war and natural disasters – change assumptions
- Changing assumptions brings volatility and invites irrational forces that can create havoc



# Execution with risk in mind

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Intense focus on the decision-making process

- Separating skill from luck – avoid false security (bad process with good result) and sustain institutional commitment (good process with bad outcome)
- Assess probability for any outcome – recognizing the odds for a particular outcome
- Rationalize investments based on probability of success, reduced correlation to other investments
- External forces – technological innovation, consumer tastes, business cycles, war and natural disasters



# Execution with risk in mind

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Intense focus on the decision-making process

- Acknowledge uncertainty but maintain staff accountability
  - Don't use vague language (i.e. "There will be a economic slowdown in the near future") that doesn't communicate anything valuable
  - Ambiguity is great for job security but we're more interested in progress



# Keeping score on decisions

- Brier scores are a convenient way to track forecasts
  - Specific outcome  
*“The S&P 500 will close above 2800 on 12/14”*
  - Confidence (50% - 100%)
  - Scored against actual outcome
  - 0 is perfect (100% confident and 100% correct). The worst score is 2 (100% confident and 100% wrong).
- Meritocracy. Lowest score wins, regardless of title or pay
- Public (or team) accountability carries reputational costs
- Objective scoring “depolarizes” the discussion
- Strong incentive to question others and second-guess

Brier Scores by Week

