

**SERS Portfolio Earned \$116 Million in 2015;
Board Retains Return Assumption, Adjusts Salary and Demographic Assumptions**

HARRISBURG – The Pennsylvania State Employees’ Retirement System today announced that the SERS fund generated \$116 million in earnings, net of fees in 2015. According to staff and investment consultant RVK, the SERS portfolio returned 0.9% net of fees for the fourth quarter, resulting in a 0.4% net-of-fees return for the calendar year.

“During a challenging year in the markets, SERS posted a positive performance of 0.4% net of fees, ranking it in the top quartile relative to its peer group of public plans,” explained SERS’ general investment consultant, Jim Voytko. “Since the great financial crisis of 2008, SERS decreased its risk profile and increased its liquidity profile to ensure that \$3 billion in retirement benefits are paid annually while returning 7.9% net of fees over the same period.”

Final returns by asset class for the fourth quarter and the year were:

Asset Class	4Q 2015 Return	Calendar Year 2015 Return
Alternative Investments	-2.0%	7.8%
Liquidity Reserve	0.0	0.7
Diversifying Assets (<i>hedge funds</i>)	-0.3	0.1
Fixed Income	-1.0	-0.7
Global Public Equity	4.6	-1.8
Real Assets	-0.5	-2.2
Total Fund	0.9%	0.4%

As always with SERS’ investment performance reporting, all returns are reported net of fees and alternative investments and real assets returns lag by one quarter.

After a presentation by the system’s actuary, Hay Group, and general investment consultant, RVK, the board moved to accept Hay’s recommendation to retain the current 7.5% assumed rate of investment return and the current 2.75% assumed rate of inflation.

“This board is tasked with determining the rate that we believe can reasonably be achieved over 20-30 years,” explained SERS Board Chairman David R. Fillman. “After careful consideration, the board concluded that 7.5% remains a reasonable long-term return assumption for this fund at this time. We will, however, revisit the rate each year and adjust if appropriate.”

Hay’s return assumption recommendation was based on a review of the fund’s historical returns, particularly the most recent four-year average compounded return of 8%, and discussion of RVK’s future return expectations based upon the asset allocations scheduled for the portfolio, as well as study of the investment return assumptions used by other large U.S. public pension plans.

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As of Dec. 31, 2015, SERS' long-term net-of-fees returns over 20, 25 and 30 years were 7.6%, 8.7%, and 8.9%, respectively.

According to the National Association of State Retirement Administrators' Public Fund Survey of 126 large public pension plans, SERS is one of 36 plans that assume a 7.5% return. Nationally, the return assumption of 23 plans is lower and 67 plans is higher than SERS.

Based on actual experience identified in the system's current 5-year actuarial experience study, the board also adopted a reduction in the salary increase assumption and adjustments to several demographic assumptions regarding mortality, retirement age, and benefit payment option selection. The board will use the updated assumptions to complete the system's 2015 valuation, due this June. The system's 2011-2015 actuarial experience study will be available in April.

In other business, the board approved a two-year extension of the contract with RVK for general investment consulting and a one-year extension of the contract with StepStone Group LLC for alternative investment consulting, subject to successful completion of contract negotiations. Both extensions maintain the existing terms, services and fees schedules of the current contracts.

The board directed staff to move forward with a review of all investment manager fees, beginning with a search for a third party firm to assist with that key initiative from the [2016-17 Strategic Investment Plan](#).

The board also directed staff to determine the best search process to find a successor for CIO Thomas F. Brier, who announced his plans to retire in June after nearly 24 years of commonwealth service. Chairman Fillman thanked Mr. Brier for his leadership as both Deputy CIO and CIO, particularly in guiding the fund through the recession and post-recession years, and for his distinguished commonwealth career.

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Pennsylvania State Employees' Retirement System

Established in 1923, SERS is one of the nation's oldest and largest retirement plans for public employees, with more than 236,000 members and assets of more than \$26 billion. A wealth of information is available at www.SERS.pa.gov.

for more information

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