

# PSPRS: Cochise County

Chief Investment Officer Mark Steed

Administrator Mike Townsend

July 27, 2021



Investments and employer contributions



**Mark Steed**  
*Chief Investment Officer*

- **Master of Science, Predictive Analytics, Northwestern**
- **Asset Allocator of the Year, Institutional Investor**
- **Rising Star, Money Management**
- **Previous portfolio experience:**
  - Public equity
  - Private equity
  - Venture capital
  - Real estate
  - Fixed income
  - Private lending



Administrator Michael Townsend

*"I'm a firm believer in defined benefit plans and I'm looking forward to helping make PSPRS better for members, employers, local boards and taxpayers..."*

- Hired by board in late -October 2019
- Responsible for day -to -day operations and executing board directives
- Certified Public Accountant
- 25 years local government experience
  - Coconino County CFO, 20 years
  - City of Flagstaff, 5 years
- ASRS Board of Trustees
  - 2 years as Chair
- Vice Chairman of League of Cities Pension Reform Task Force



# PSPRS Investments Overview

**Strategy : Maximize returns while keeping risk in check**

- Protect at-risk employers from further contribution rate increases – 20 employers have contribution rates of 75 percent or greater
- Diversify investments across multiple asset classes
- Avoid domino effect of losses throughout portfolio
- Minimizing risk means sacrificing high investment returns
- A diversified allocation will not keep up with a hot stock market – it's designed to protect the investor from stock market losses
- The objective (and skill) is to maximize returns within an acceptable level of risk



# PSPRS Investments Overview

## Strategy : Why investment risk matters

- Today's portfolio, yesterday's worst-case-scenarios
- Current allocation able to withstand severe economic shocks

Events	Today's Portfolio	PSPRS Trust Actual
WTC Attacks - Sept. 11	-3.1%	-11.7%
Stock Market Crash 2002	-1.2%	-21.1%
August Crisis 2007	1.3%	1.6%
January Crisis 2008	-0.2%	-2.7%
Credit Crunch 2008 (Aug to Nov)	-12.8%	-23.1%
Crisis 2009 (Jan-Feb)	-3.6%	-12.9%
Flash Crash 2010	-3.0%	-3.7%
Brexit (2016)	0.7%	-0.3%
COVID-19 (2020)	-6.0%	-6.2%

## Capital Appreciation

Translates growth in the economy into growth in the trust's assets and includes:

- U.S. and international public equities
- Private equity – U.S. and global
- Opportunistic real estate
- High yield bonds

## Contractual Income

Refers to investments where a contractual return is driving returns and includes:

- U.S. treasuries
- IG bonds
- Private lending
- Leasing and royalties

## Diversifying Strategies

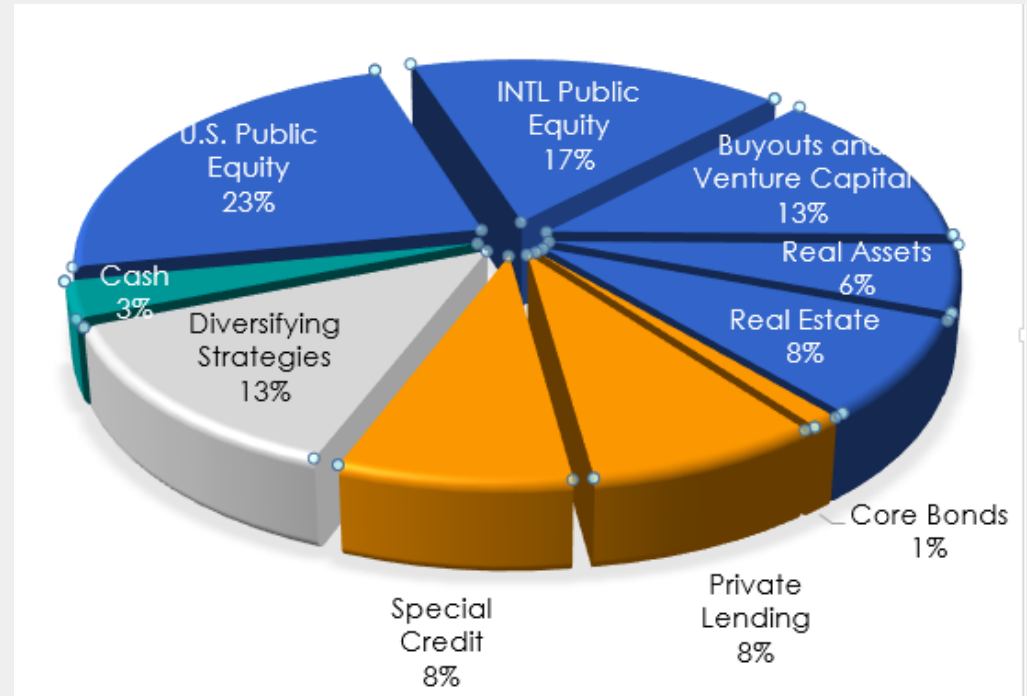
Investments for positive returns over time, with little to no correlation to traditional asset classes. Examples include:

- Global tactical asset allocation
- Long/short equity
- Merger arbitrage

# PSPRS Investments

(Three major categories)

Asset Allocation as of June 30, 2020



# PSPRS Investments (Briefly Speaking)



## FY 2020 Performance at a glance

- FY20 – 0.91% return, \$182 million generated
- Exceeded 0.8% FY20 median return for US pensions with more than \$10 billion in assets
- Extreme covid-related market volatility
- S&P 500 index dropped 34 percent in March from mid-February high
- Fiscal year – July 1, 2019, to June 30, 2020 – did not capture market rebound and growth
- Calendar year – Jan. 1, 2020, to Dec. 31, 2020 – returns of 9.7%
- Returns based on priced value as of June 30, 2020 – assets were not sold

# PSPRS Investments (Briefly Speaking)



## FY 2021 Performance at a glance

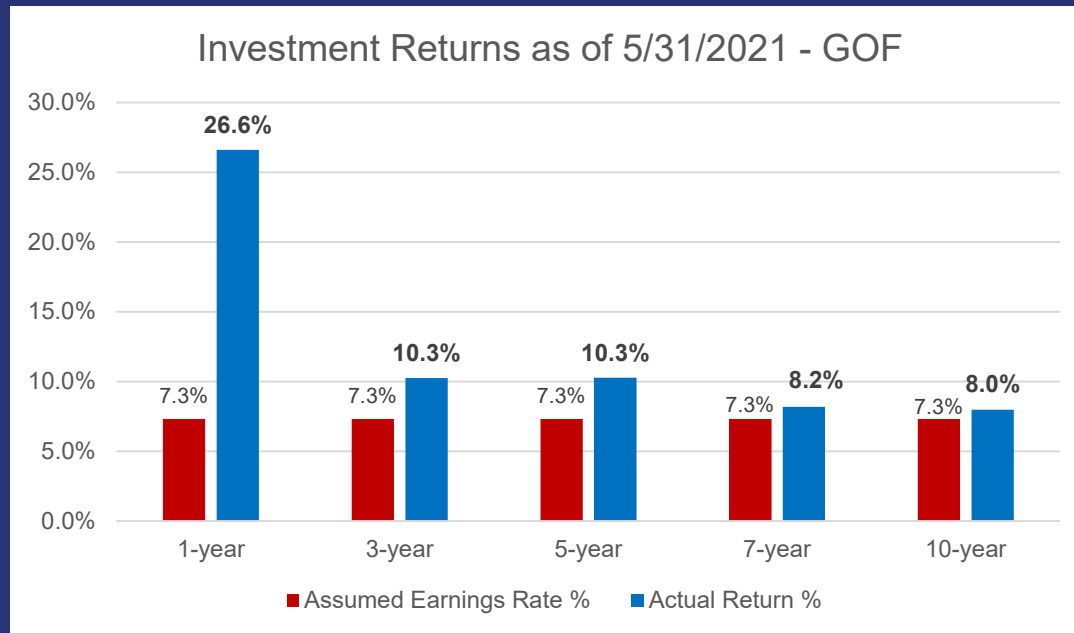
- 26.59% investment return as of May 31, 2021
- \$3.2 billion increase since June 30, 2020
- Portfolio value reaches \$14.1 billion
- Aided by stock purchases during market lows
- Aided by portfolio changes from fixed income to private sector investments
- Fiscal year ended June 30, 2021
- Final net returns available in late 2021



# PSPRS Investments Overview

## Investment returns over longer horizons

- Exceeds 7.3 % assumed earnings rate over 1, 3, 5, 7 and 10-year periods



# Employer Unfunded Liability Financing



## Quick look at additional contributions:

- \$1.58 billion in additional contributions for public safety, corrections in FY2021
- Estimated \$1+ billion additional in July and August 2021
- \$4 billion estimated taxpayer savings over 16 years from \$2.5 billion additional contributions to date
- 50 employers (approx.) with additional contributions of \$1 million or more
- 40+ employers used debt instruments
- Employers continue to approve/carry out additional contributions in FY2022
- Current interest rates favorable to 7.3% rate applied to unfunded liabilities

# Employer Unfunded Liability Financing and Additional Contributions



## How employers are increasing contributions

- **Debt instruments – pledged revenue bonds**
  - Examples – Apache, Gila, Pima, Pinal and Yuma counties, various municipalities and fire districts
- **Debt instruments – certificates of participation**
  - Similar to bonds but public assets, like buildings, used as collateral
  - Examples – Cities of Flagstaff and Tempe
- **Utilize project reserves, tax-free financing for projects – Coconino County, Eloy**
- **Direct appropriations – one-time and ongoing**
  - Examples – State of Arizona (DPS and Corrections), Navajo County, various municipalities
- **Local sales taxes – full or partially dedicated**
  - Examples – Cities of Prescott and Payson



# Questions, comments & discussion

**LET'S TALK**

What questions do you have?



# Resources

## Appendix

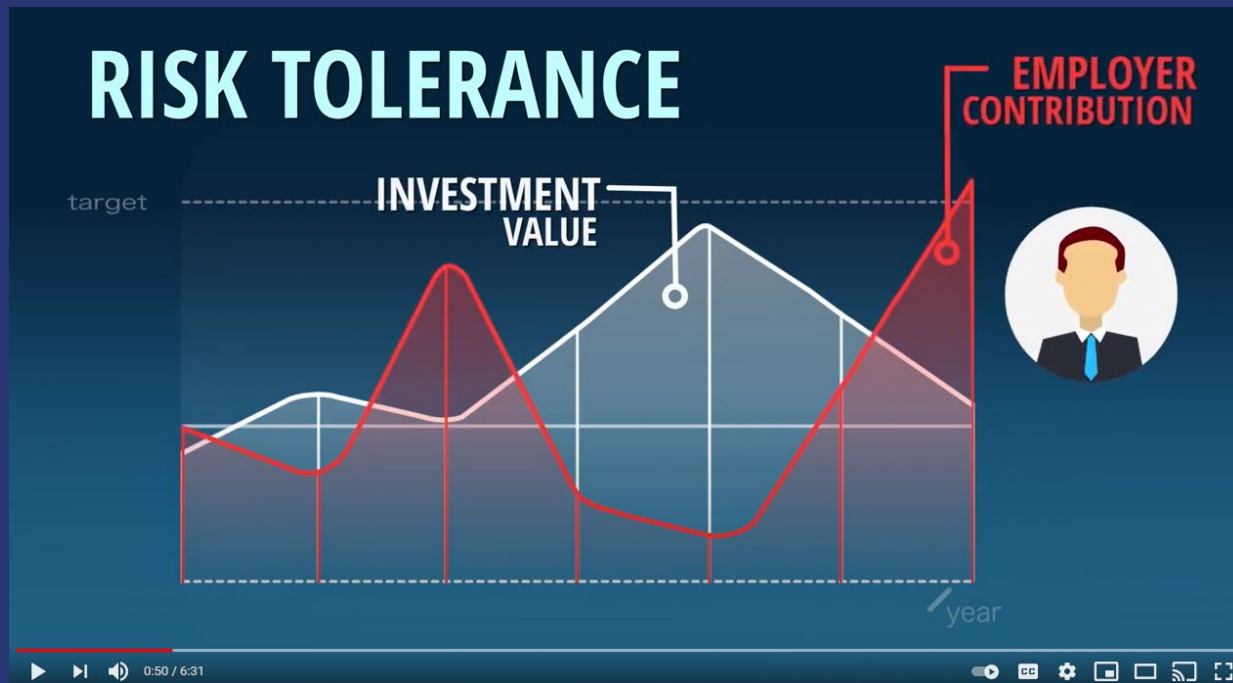
Subscribe to our newsletter  
and follow us on social media





# Building a portfolio through public and private investments

<https://www.youtube.com/watch?v=tjYK1ESLq5c>





# Video: Understanding Pension Financing

<https://www.youtube.com/watch?v=C6zObGIhHXQ>



CASH ON HAND



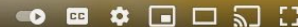
CURRENT PENSIONS  
TO PAY



ESTIMATED CASH NEEDED  
FOR FUTURE PENSIONS



0:30 / 6:11



# Trustees

## AN INTRODUCTION

### JIM AMEDURI (Recently resigned, position vacant)

CEO and Managing Partner of Alize Ventures and a global investment expert with three decades of experience. Director of ESalt Media Technologies; Chairman of the Board for Capax World, Director of the Arizona State University Foundation Investment Committee; Director of the Arizona Community Foundation, where he serves on the Investment and Special Assets Committees. Appointed by House Speaker Rusty Bowers.



### CHRIS HEMMEN

Chief of staff of Arizona Department of Public Safety (DPS) Office of Highway Patrol Division. Manages multi-million budgets, led statewide criminal interdiction efforts and helped DPS save hundreds of thousands of dollars of infrastructure and equipment costs. Graduate of ASU Certified Public Manager Program, bachelor's of science in public administration from NAU. Appointed by Governor Doug Ducey.

# Trustees

## AN INTRODUCTION

### BRIAN MOORE

Phoenix Fire captain with 26 years' service. Also serves on Phoenix and Daisy Mountain Fire District local boards, on Phoenix's Deferred Compensation Board (\$2 billion assets under management) and as chairman of Investment Selection Subcommittee. Current member of the PSPRS Defined Contribution Committee that established 401a and 457 plans in use by Tier 2 and 3 members, and executive board member of United Phoenix Fire Fighters Local 493 of IAFF. Appointed by Gov. Ducey.



### HARRY A. PAPP

Managing partner of L. Roy Papp & Associates with almost 40 years experience as a portfolio manager and securities analyst. Chartered Financial Analyst and former acquisition manager of G.D. Searle & Co. Investment Committee chairman, also board member for State Board of Investment, chairman of Blue Cross/Blue Shield, ASU Foundation board member, Phoenix Zoo trustee. Appointed by Gov. Ducey.



# Trustees

## AN INTRODUCTION

### NATE WEBER

Tucson Fire Department captain with 23 years of service. Vice-President of the Tucson Fire Fighters Association Local 479. Serves on both the city fire department and Corona de Tucson local boards. Board chairman for the city's Deferred Compensation Plan, 2009 Recipient of Greater Tucson Fire Foundation Award of Service. Appointed by House Speaker Rusty Bowers.



### DAREN WUNDERLE

Phoenix Police Department sergeant with 21 years of service. Assigned to the Professional Standards Bureau since 2010, performing audits, inspections, misconduct investigations and projects for City Council, management and chief of police. Member of the city's local police board, Health Care Task Force, and the Phoenix Police Supervisors' Union executive board. Appointed to the PSPRS Defined Contribution Committee in 2016. Appointed to the board by Senate President Karen Fann.

# Trustees

## AN INTRODUCTION

### DEAN SCHEINERT

Thirty-plus years of experience with investment management and capital markets, including terms as senior vice president for J.P. Morgan Chase Private Bank and U.S. Bank. Chartered Financial Analyst and Chief Advancement & External Affairs Officer with Western Spirit: Scottsdale's Museum of the West. Also investment chairman of Jewish Community Foundation of Greater Phoenix. MBA from Wharton. Appointed by Gov. Ducey.



### ALAN MAGUIRE

Advised Arizona governors and political leaders on the impacts of fiscal and economic policy for more than 40 years. He previously served as a PSPRS trustee from 2010 to 2012. Since 1991, Maguire has been the President and Principal Economist of The Maguire Company, which serves local, county and state governments and entities. Maguire is past chairman of the Arizona State Retirement System (ASRS) Board of Trustees, past Chairman of the PSPRS Investment Oversight Committee, past President of the Maricopa County Industrial Development Authority, past Director of the ASRS; and former member of the Arizona Board of Investment.