

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
ELECTED OFFICIALS' RETIREMENT PLAN**

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August 8, 2013

MEMORANDUM

TO: PSPRS, CORP & EORP MEMBERS
FROM: THE PSPRS ADMINISTRATOR
SUBJECT: RECENT MEDIA REPORTS

I would like to take this opportunity to address a few issues that have recently been reported in the media discussing certain PSPRS management practices and financial disclosures.

On July 18th, at the direction of the Board of Trustees, I sent a letter to the State Auditor General asking for a review of the methodology we use to value certain legacy real estate assets and whether we should use the valuations of these legacy real estate, as determined by the asset manager, in our financial reports.

As you may be aware, PSPRS, like many state agencies, voluntarily seeks the independent review and guidance of the Auditor General from time-to-time. We believe that asking the State Auditor General to evaluate these decisions is something that is prudent and appropriate.

Some media reports have inaccurately alleged that PSPRS reported higher values for its real estate portfolio to generate higher incentive compensation awards for its investment staff. To be very clear, our investment staff received **ZERO DOLLARS (\$0)** in incentive payments in 2012 as a result of the System's investment performance, which would have reflected the December 31, 2011 real estate values.

Each staff member's 2012 incentive compensation award was derived from a formula calculation and those calculations clearly show that the investment-related component (which reflects the real estate valuations) contributed nothing to the incentive compensation awards that year. The only incentive payments which investment staff did receive were modest, totaling less than \$48,000 distributed among 9 employees and were solely attributable to their qualitative job performance.

A portion of the PSPRS real estate portfolio is managed by Desert Troon Companies (DTC), a long established, Scottsdale, AZ real estate development/management firm. Unfortunately, some media reports seem to question the track record of DTC. We wish to point out that all real estate assets in the United States suffered tremendous losses in value as a result of the financial markets' melt-down in 2008 and the Great Recession of 2009.

In our view, DTC has done an excellent job of managing these assets back to health. DTC recently sold properties for two to three times what they were valued for on December 31, 2011. For example, Desert Troon recently sold a subdivision called Sossaman Estates for \$10.6 million, despite the fact it was appraised by an independent appraisal firm as worth just \$3.4 million at the end of 2011. Similarly, Desert Troon recently sold two subdivisions (Tortosa and Sorrento) for \$11.95 million, nearly double the price an independent appraiser valued those subdivisions at the end of 2011. There are many more examples of Desert Troon's achieving materially higher sales prices for properties that within a year of such sales, were valued far lower by independent appraisers.

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PSPRS could have chosen to sell off its entire Arizona real estate portfolio immediately after the 2009 Great Recession -- effectively selling at the bottom of the real estate market -- thereby relieving itself of the burden of managing a greatly-devalued portfolio that might take years to recover. But we believed it was not prudent to sell at fire-sale prices; so the System chose to hold its real estate assets until the market recovered. That effort is now underway, and PSPRS makes no apology for taking the long term, prudent approach and waiting to sell at higher, not lower, prices. This is in the best interest of our members, and their employers who could benefit from the potential of lower contribution rates as the real estate values steadily improve.

If you have any questions with respect to any media reports you have seen or may see in the future, please contact me directly. I am always available by telephone at: 602-296-2527 or by e-mail at: jhacking@psprs.com. We shall also post the response we receive from the Auditor General after review by the Board of Trustees.