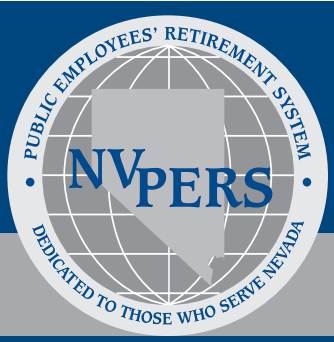
MEMBER NEWS



Spring 2013

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PERS' Comparative Investment Advantage

In 1817 famed British economist David Ricardo introduced the concept of "comparative advantage". The underlying principle he put forth was that different entities maintain natural comparative advantages over their potential competition, and each one should seek to capitalize on whatever those advantages are. For instance, it's far easier to grow pineapples in Hawaii than in Wisconsin. Because of this Ricardo suggests it would be smart for people in Wisconsin to focus on making cheese and let the Hawaiians grow pineapples.

When it comes to retaining qualified employees and funding their retirement benefits, public defined benefit pension funds like Nevada PERS maintain a distinct comparative advantage over alternate approaches. Specifically, our advantage rests in our ability to invest assets over a long term time horizon that encompasses decades, rather than months or years.

In any individual year, statistically we can expect investment returns that range from strongly positive to very negative. However, given a 30+ year time horizon we can construct an investment program that takes these volatile single year returns and turns them into a more predictable long term average.

In fact, this is exactly what PERS has experienced. Since PERS' investment performance inception in 1984, the program has experienced four years of negative returns, eleven years of returns in excess of 13% and thirteen years of returns that were between those two extremes. PERS' average annualized return over that entire period has been 9.3%.

The ability to construct an investment portfolio that is measured in decades rather than single years is one of PERS' greatest comparative advantages. By taking a longer term view compared to the majority of market participants, we are able to capitalize on short term market overreactions.

By adapting the program to long term shifts in the capital markets, and maintaining a long term view as we buy assets at lower prices and sell them at higher prices during periods of volatility, we are able to add value to the program over time. We expect this disciplined, long term approach to continue to serve the system and its members well.

Annual Report – Fiscal Year 2012 Highlights

Each year the Public Employees' Retirement System of Nevada publishes an annual report, which is submitted to the Governor, members of the Nevada Legislature, public employers, and employee and employer associations. The report provides an overview of financial, investment, and statistical information in a simple, easy to understand format. Your Spring 2013 Retiree/Member News includes some of the highlights from the 2012 annual report.

Operational Initiatives

PERS' agency performance is measured by total workload. Between July 1, 2011, and June 30, 2012, staff completed approximately 64,057 pieces of work within C*A*R*S*O*N (Computer Automated Retirement System of Nevada). Of this group, 52,384 were directly related to customer requests, such as benefit estimates and purchase of service estimates, with 11,673 relating to back office support work such as Survivor Beneficiary Designation forms. Approximately 95% of all work was performed within the ten working days benchmark.

Benefit payments to approximately 50,000 benefit recipients were made within our benchmark of four working days before the end of the month. During this fiscal year, staff completed 2,833 one-fifth of a year purchases for educational employees and 715 service credit audits for the Public Employees' Benefits Program (PEBP).

PERS continued participation in a benchmarking analysis service in fiscal year 2012. The purpose of the analysis was to help PERS understand how our total administration costs and service levels compare to our peers, given the lack of in-state competition to use as a benchmark. The analysis shows that

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PERS provides a good level of service at a substantially lower administration cost than the peer average.

Strategic Planning

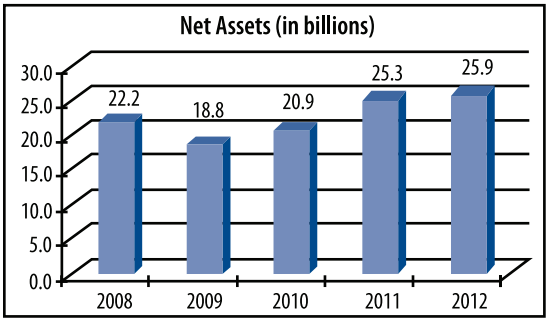
Annually, PERS' executive staff reviews the System's strategic plan for updates, including both additions and deletions. The Strategic Plan covers a five-year period and is updated annually by the Executive Officer in consultation with the Board.

The Strategic Plan contains the following sections: Philosophy, Mission, Planning Process, Core Values, Organization and History, Goals and Objectives, Strategies, Internal Assessment, External Assessment, and Performance and Caseload Indicators. The Organization and History section was updated to include data from the most recent annual financial report and to include an expanded discussion of the Retirement Benefits Investment Fund. Language was added or modified in the Internal Assessment and External Assessment sections to include or update information on cash flow management, member communications, staffing, technology, internal controls, legislative study on plan design, accounting issues, and mandatory Social Security. The Performance and Caseload Indicators were also updated. The current Strategic Plan is available on the website.

Financial Highlights

Net assets (total assets minus total liabilities) increased by $0.6 billion or 2.6% to $25.9 billion as of June 30, 2012.

Total net investment income was $0.8 billion in fiscal year 2012, a decrease from the $4.4 billion income generated in fiscal year 2011.



Total investments, excluding securities lending collateral, at June 30, 2012, increased by $0.5 billion or 2.2% to $25.4 billion.

As of June 30, 2012, the most recent actuarial valuation, the System was 71.0% funded, compared to a funding level of 70.2% as of June 30, 2011.

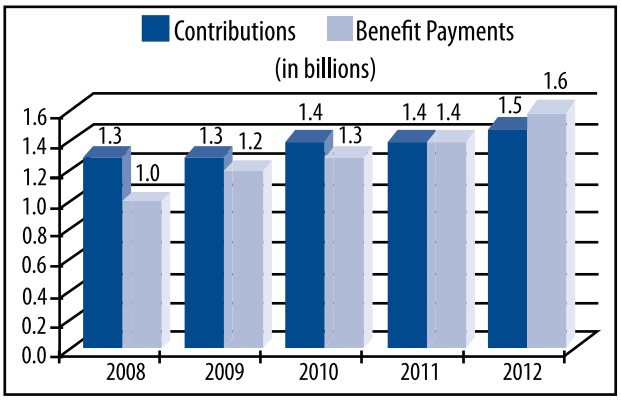
Total contributions for fiscal year 2012 increased by $75.2 million or 5.4% to $1.5 billion.

Benefit payments for fiscal year 2012 increased by $140.6 million or 10.0% to $1.6 billion.

Refunds of contributions increased by $3.0 million or 12.2% to $27.8 million.

The financial crisis that peaked in 2009 was the catalyst for some of the most volatile markets in history. In this environment, PERS has been competitive versus other large public pension plans, ranking in the top 27% for return and the bottom 29% for risk (last four years). Generating returns in the top of the peer group while experiencing less volatility than the majority of those same investors is a testament to the effectiveness of the Retirement Board's investment strategy.

The fair value of PERS' investment assets at the end of fiscal year 2012 was $25.4 billion. PERS' total return on investments for that same time period was 3.1%, which includes both realized and unrealized gains. Fiscal year 2012 returns were influenced by below average returns from U.S. and non-U.S. stocks. The fund's annualized rate of return is 9.4% since inception (28 years) versus the long-term actuarial funding objective of 8.0%.

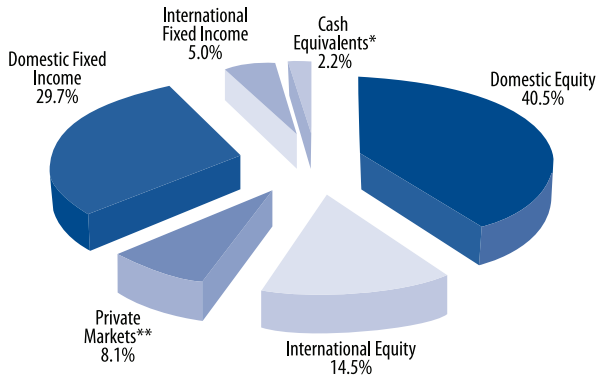


The number of active members has declined for the fourth year in a row. However, contributions increased by 5.4% from 2011 to 2012. Withdrawn contribution repayments and purchases of service increased $6.4 million or 20.4% between 2011 and 2012. Withdrawn contribution repayments and purchases of service, by nature, are unpredictable from year to year. However, a slight recovery in the economy may have influenced the increase in purchases and repayments experienced between fiscal years 2011 and 2012.

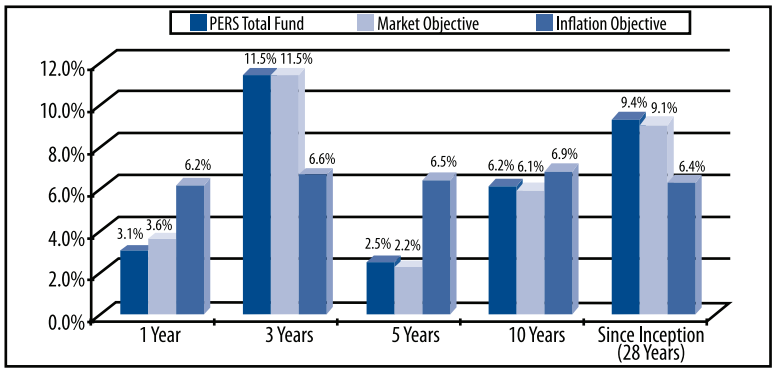
Benefit payments rose 10.0% between 2011 and 2012. A portion of the increase may be attributed to reduced public employee budgets resulting in employee layoffs and early retirement incentive programs.

The transfer of contributions to the Judicial Retirement System (JRS) increased from 2011 as members continue to transfer from PERS to JRS. During fiscal year 2012, transfers totaling $1,660,482 were made.

The portfolio's return is compared to specific benchmarks as a way of evaluating the fund's performance. Two such benchmarks are the market objective and the inflation objective. PERS' market objective represents a passive investment in PERS' target asset allocation. The market objective serves as a performance barometer which represents the investment return PERS would have experienced if it was exactly invested in the target asset mix every day. PERS' blended market objective is currently comprised of 40% U.S. Stocks, 15% international developed market stocks, 30% U.S. bonds, 5% non-U.S. government bonds, and 10% private markets. The inflation objective represents the performance of PERS' long-term real return objective plus inflation as measured by the Consumer Price All Urban Index (CPIU). The inflation objective has changed over time as follows: CPIU + 3.0% until 09/30/2000; CPIU + 3.5% until 09/30/2002; CPIU + 3.75% until 09/30/2003; and CPIU + 4.5% thereafter.



The chart below illustrates PERS' portfolio performance over a variety of time periods. The fair value of the System's investment assets at the end of fiscal year 2012 was $25.4 billion. The fund's annualized rate of return is 9.4% since inception (28 years) versus the long-term actuarial objective of 8.0%. The fund is competitive on a risk-adjusted basis, ranking in the top 13% of public funds for that same time frame.



Multiple performance objectives are utilized to monitor the fund at the total portfolio and asset class level. Those objectives include:

Total Fund – 8.0% long-term return which exceeds the rate of inflation (CPI) by 4.5% by capturing market returns within each asset class.

Investments

The System's ability to provide retirement benefits to its members is influenced by the performance of the investment portfolio. Approximately 20% of the benefits the average member will receive in retirement are funded from contributions. The remaining 80% are generated from investment earnings.

The investment portfolio is designed to meet the funding objectives of the System while taking the least possible risk. This cautious stance is defined by the prudent person standard outlined in the statute which sets guidelines for the System's administration. The standard states that the Board may invest the System's funds in every type of investment which persons of prudence, discretion, and intelligence acquire or retain for their own account. By establishing a well diversified investment portfolio, the System has strengthened control over the fund's risk and return parameters.

Asset allocation is one of the most important factors in designing an investment portfolio to provide protection against large fluctuations in portfolio returns and to stabilize the overall investment earnings. Not all categories, styles, managers, and assets react to movements in the investment markets in the same manner. Therefore, one investment that is not favored by the market should be offset by another which is doing well. The Board annually reviews the estimated returns and risks associated with major types of investments to determine the best blend of investments that will meet the risk/return comfort level for the PERS portfolio.

PERS' investment portfolio is diversified to control risk and maximize return under a variety of economic conditions.

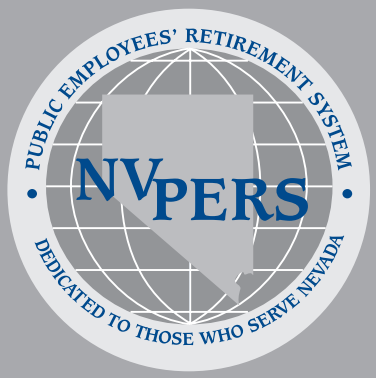
Asset Class Objectives

U.S. Stock	– Standard & Poor's (S&P) 500 Stock Index
International Stock	– Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index (unhedged)
U.S. Bonds	– Barclays Aggregate Index
International Bonds	– Citigroup Non-Dollar Government Bond Index
Private Markets	– Blended return (based on PERS actual allocation) of: the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index -0.75% and S&P 500 Index + 4.0%.

The following information shows a 10 year comparison between several categories of retirement factors.

Average Benefit Payments

June 30		Regular Members	Police/Fire Members
2003	Average monthly benefit	$1,879	$2,862
	Average monthly compensation at retirement	$4,238	$5,931
	Number of new retirees	1,731	283
	Average years of service at retirement	19.32	21.78
	Average age at retirement	59	54
2012	Average monthly benefit	$2,603	$4,487
	Average monthly compensation at retirement	$4,965	$7,491
	Number of new retirees	3,226	440
	Average years of service at retirement	19.23	22.39
	Average age at retirement	64	59



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PERS' Investment Officer

We are very pleased to announce that Steve Edmundson was recently selected to fill the vacant Investment Officer position here at PERS. Steve Edmundson has worked for PERS as the Assistant Investment Officer for the past 7 years. Prior to working with PERS, Steve spent five years at Oracle Corporation's International Treasury group based in Reno where he specialized in foreign currency risk management and international treasury operations. Steve's education includes an undergraduate degree from Montana State University in Political Science and a Masters degree from the University of Nevada, Reno in Public Administration/Public Policy.

This publication is intended to provide general information.
If there is any conflict between this information and Nevada law or PERS' policies, the laws and policies will supersede this information.
Member News is a quarterly newsletter for active members of the Public Employees' Retirement System of Nevada.
Comments or suggestions may be directed to:
PERS, Newsletter, 693 W. Nye Lane, Carson City, Nevada 89703.