

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

FUND MANAGER MEETING

March 31, 2010

REVISED AGENDA

The Meeting of the Fund Manager of the Public Safety Personnel Retirement System (PSPRS or System) will be held in the main public conference room of the administrative offices of PSPRS, 3010 East Camelback Road, Suite 200, Phoenix, Arizona, 85016, commencing at 1:00 p.m. on Wednesday, March 31, 2010. The meeting will continue until on or before 5:00 p.m. or until the matters set forth in this agenda are otherwise addressed. The Fund Manager may vote to hold an executive session, which will not be open to the public, to discuss certain matters. The Fund Manager reserves the right to consider agenda items out of their listed order.

1. Call to Order

2. **Consent Agenda** (Documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item, and **Action** taken, upon the request of any Fund Manager member or advisor. The Fund Manager may approve, modify or reject approval of any of the following items:

- a. Approval of the Minutes of the Fund Manager Meeting on February 24, 2010.
- b. Acceptance of Transfer Between State Retirement Systems of Reginald Relf.
- c. Acceptance of Transfer Between State Retirement Systems of Thomas Hamilton.
- d. Acceptance of Transfer Between State Retirement Systems of Steve Marrone.
- e. Acceptance of Transfer Between State Retirement Systems of Robert Hoskin.
- f. Acceptance of Transfer Between State Retirement Systems of Michael Hoeve.
- g. Acceptance of Transfer Between State Retirement Systems of Kevin Florey.
- h. Acceptance of Transfer Between State Retirement Systems of Michael Shipley.
- i. Acceptance of Transfer Between State Retirement Systems of Stephen Desens.
- j. Acceptance of Transfer Between State Retirement Systems of Newell Peterson.
- k. Acceptance of Transfer Between State Retirement Systems of Robert Topolosek.
- l. Acceptance of Transfer Between State Retirement Systems of Matthew Tanner.
- m. Acceptance of Transfer Between State Retirement Systems of Robert Churchey.
- n. Acceptance of Transfer Between State Retirement Systems of Bruce Smith.
- o. Acceptance of Transfer Between State Retirement Systems of Frank Milstead.
- p. Acceptance of Transfer Between State Retirement Systems of John O'Connor.
- q. Acceptance of Transfer Between State Retirement Systems of Jeffrey Bell.
- r. Acceptance of Transfer Between State Retirement Systems of Patrick Kelly.
- s. Acceptance of Transfer Between State Retirement Systems of Brittany Stansbury.
- t. Acceptance of Transfer Between State Retirement Systems of Kyran Brennan.
- u. Acceptance of Transfer Between State Retirement Systems of Terry Wilson.
- v. Acceptance of Transfer Between State Retirement Systems of Joni Burgler.
- w. Acceptance of Transfer Between State Retirement Systems of Larry Chambers.
- x. Acceptance of Transfer Between State Retirement Systems of Mario Escudero.
- y. Acceptance of Transfer Between State Retirement Systems of Martin Broderick.
- z. Acceptance of Transfer Between State Retirement Systems of Ronald Smith.
- aa. Acceptance of Transfer Between State Retirement Systems of Norma Campbell.
- bb. Acceptance of Transfer Between State Retirement Systems of James Pool.
- cc. Acceptance of Transfer Between State Retirement Systems of Ana Valencia.
- dd. Acceptance of Elected Officials' Retirement Plan of termination of benefit of Eugenia Hummel.

- ee. Acceptance of Elected Officials' Retirement Plan of normal benefit of Richard Henry.
- ff. Authorization and approval for the Trust (through its Chief Investment Officer) to enter into a Joint Defense Agreement with Desert Troon Limited and its affiliates (in a form approved by the Trust's legal counsel) with respect to litigation threatened by Millard and Scott Seldin against the Trust.
- gg. Authorization for Kutak Rock LLP to extend its agreement with Lightstone Solutions, LLC to provide investigation services for the Trust for an additional year, and to expand such services to include annual media monitoring of each of the Trust's outside investment managers.

3. Investments - Stocks, Bonds and Others

- a. Report by the Chair of the Investment Committee, Mike Galloway, regarding the discussions that were held and the recommendations that were made in the Investment Committee meeting that was held on Wednesday, March 31, 2010 at 10:00 a.m., with discussion, and possible **Action** by the Fund Manager to approve, disapprove, or suggest modification regarding the following items:

1. Presentation by Staff, StepStone Group and representatives of DFJ Mercury and discussion regarding a possible investment of up to \$20 million in DFJ Mercury Fund II or any appropriate feeder, blocker or parallel fund of same.
2. Presentation by Staff, New England Pension Consultants ("NEPC") and representatives of GAM USA Inc. and discussion regarding a possible investment of up to \$75 million in GAM Trading Strategy commingled fund (or any appropriate feeder, blocker or parallel fund of same).
3. Presentation by Staff and discussion regarding a possible increase to the committed investment in Millennium Technology Value Partners II from up to \$20 million to up to \$30 million with this additional \$10 million to be allocated to co-investment opportunities.
4. Presentation by Staff and Albourne Partners and discussion regarding a possible investment of up to \$20 million in Hawker Capital Harrier Master Fund or any appropriate feeder, blocker or parallel fund of same.
5. Presentation by Staff and discussion with advisers and legal counsel regarding adoption of the following amendment [new paragraph 6] to Section V of the Amended Statement of Investment Policy:

"6. **Overlay Liability.** The Trust may engage in "Portable Alpha" and other investments utilizing derivative exposures as authorized by the Fund Manager upon the recommendation of staff and the Investment Consultant. Generally, Portable Alpha investments are comprised of two portions—the "*Beta*" portion, in which the Trust invests no capital at the outset but through the use of derivatives, agrees to realize the return (whether positive or negative) of a particular group of publicly traded securities over a given period [typically expressed as an agreement to experience a particular LIBOR based threshold (or index or indices)], and the "*Alpha*" portion, in which the Trust invests cash with the expectation (but not guarantee) of achieving a return in excess of a particular index or indices (or LIBOR based threshold). With respect to its investment in the *Alpha* portion, the Trust risks loss of its invested capital, as is the case with any investment. With respect to its investment in the *Beta* portion, however, the Trust's risks may equal as much as its investment in the *Alpha* portion, such that the Trust's total losses in connection with a Portable Alpha investment (or other derivative based investment) may potentially equal twice that allocated for that investment.

For example, if the Trust were to allocate \$100,000,000 to a particular Portable Alpha investment, and invest the full \$100,000,000 in the *Alpha* portion of said investment, and correspondingly, agree to experience, as the *Beta* portion of the investment, the return attributable to a \$100,000,000 investment in the S&P Index over a term equal to that of the Trust's investment in the *Alpha* portion, in the unlikely event the S&P Index fell to zero during the given investment period, the Trust would be obligated to pay \$100,000,000 as and for its obligations relating to the *Beta* portion, regardless of how the *Alpha* portion performed. Such losses are mitigated by careful monitoring of the *Beta* portion, periodic true ups of any liabilities attributable to the *Beta* portion, and generally, the ability to exit the *Beta* portion at periodic intervals in the event the index or indices to which such portion is tied appear(s) to be moving in an adverse direction (although such exit may be subject to various costs, including termination fees and penalties).

It is the Fund Manager's expectation that the Trust's liability attributable to the *Beta* portion of any Portable Alpha investment, or any investment in which there is a derivative overlay (the "Overlay") will be closely monitored by staff and the managers of such investment such that any liability attributable to the Overlay will be modest and reasonable in relation to the prospective gains of such investment. Based upon that expectation, amounts authorized by the Fund Manager for investment in any particular Portable Alpha type security (or other investment involving one or more Overlays) may be allocated solely to the Alpha portion of such investment, with the Trust to pay periodically, with other and additional funds derived from the Trust's overall portfolio, any liability arising with respect to the Overlay portion of the investment. For purposes of illustration, if the Fund Manager were to authorize investment of \$100,000,000 in a particular Portable Alpha investment, all \$100,000,000 authorized may be invested in the *Alpha* portion of said investment, with any liability arising from the Overlay to be paid by the Trust from other Trust funds as are then available from the Trust's portfolio generally. Any monies paid by the Trust to cover an Overlay shall be accounted for by the Trust as attributable to the Portable Alpha or other investment to which such Overlay pertains. Further, when a Portable Alpha investment [or other investment utilizing an Overlay] is presented to the Fund Manager for its consideration and approval, staff shall estimate the expected range of liability that may be incurred by the Trust from the investment's Overlay so the Fund Manager can better understand the investment's potential risks."

6. Presentation by Staff and discussion with advisers and legal counsel regarding the approval of a new Appendix V *Securities Lending Policy*, replacing and superseding the previous Appendix V of the PSPRS Amended and Restated Statement of Investment Policies.
7. Report by Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio update.
8. Report by Compliance Auditor and discussion regarding investment compliance, holdings and transactions as of February 28, 2010.
9. Report by Staff and/or legal counsel and discussion regarding recent developments and legal issues (including settlement discussions) involving the Trust's custodians, lenders, securities lending agents, vendors, investments or investment managers or partners (as well as any investments managed by the Trust's investment managers or partners). The Fund Manager may vote to discuss this matter in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(3),(4) and (7), as set forth in item 5 (a)&(b).
10. Discussion regarding amending the Fund Manager Governance Policy, and the

Investment Committee Charter contained therein, to allow the Committee to be comprised of three members (constituting a quorum) of the Fund Manager.

4. Other Business

- a. Report by the Chair of the Operations, Governance Policy and Audit Committee, Brian Tobin, regarding discussions that were held, the recommendations that were made, and the action that was taken in the Operations, Governance Policy and Audit Committee meeting that was held on Wednesday, March 31, 2010 at 10:00 a.m., with discussion, and possible **Action** by the Fund Manager to approve, disapprove or suggest modification regarding the following items:
 1. Discussion and *possible recommendation for Action* regarding the results of the analysis of the program by the actuary, Gabriel, Roeder, Smith & Company (“GRS”), to include benefit enhancements and setting the premium for fiscal year 2011.
 2. Update by Karen Lewis regarding the FY 2009, 2010 budget as of February 28, 2010 with departmental projections to the end of the fiscal year to be followed by discussion and *possible recommendation for Action*.
 3. Discussion between the Committee, Staff and the IT department regarding second off site back up and *possible recommendation for Action*.
 4. Review and discussion of the March 2010 bill for legal services performed in February and possible **Action** by the Committee to approve the bill.
 5. Written update on the progress of the Local Board Training program with *possible discussion and recommendation for Action*.
 6. Update by Bridget Feeley and discussion regarding compliance and internal audit with *possible recommendation for Action*.
- b. Presentation by the System lobbyists (Representatives of P3 and HighGround) with respect to status of the System’s FY 2010 legislative initiatives with discussion and possible **Action** by the Board to approve, disapprove, or modify same.
- c. Presentation by representatives of Gabriel, Roeder, Smith regarding the Assumed Earnings Rate for the fiscal year beginning July 1, 2011 and possible **Action** by the Board to approve, disapprove, or modify same.
- d. Discussion regarding possible changes to the membership of the committee of the Fund Manager created to conduct interviews in order to select a new Administrator and possible **Action** to approve, disapprove, or modify same.
- e. Discussion regarding Fund Manager requests to participate in training, educational and due diligence opportunities with possible **Action** by the Board to approve, disapprove, or suggest alternative training and education seminars and/or due diligence opportunities.
- f. Discussion and possible **Action** by the Fund Manager regarding HB 2003 and the implications for PSPRS and Staff. The Fund Manager may vote to discuss this matter in Executive Session pursuant to A.R.S. § 38-431.03 (A) (1) as set forth in item 5(c).
- g. Discussion with the Fund Manager and instruction to legal counsel regarding ongoing or threatened legal action involving the Arizona PSPRS Trust, the System, or the System’s sister plans (EORP or CORP), including Campbell, Swink, Hosea, Miller, Martin, ApexCapital, Staeck,

BNY Mellon, Pivotal Group, Desert Troon, Seldin, Parker, Loftus, JP Morgan Chase, Toyota, and Countrywide matters and possible **Action** regarding same. The Fund Manager may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4), and (7), as set forth in items 5(a) and (b).

5. Executive Session for Legal Matters in Accordance with A.R.S. §§ 38-431.03(A)(1), (2), (3), (4), & (7). The Fund Manager may vote to go into Executive Session to discuss matters pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4), and (7) including to obtain legal advice from the Board's attorney on any matter listed on the agenda, including:

- a. Discussion and consultation with legal counsel regarding legal issues, and settlement discussions, if any, arising in connection with the Arizona PSPRS Trust's real estate, private equity, hedge and other investments, including those managed by the Pivotal Group, ApexCapital Management, and Desert Troon Limited, pursuant to A.R.S. §§ 38-431.03(A)(3), (4) and (7).
- b. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Arizona PSPRS Trust, the System or the System's sister plans (EORP or CORP), including contemplated internal investigation and interview guidelines, investment related matters, EEOC charges, and cases, including Campbell, Swink, Hosea, Miller, Martin, Cross, ApexCapital, Staeck, BNY Mellon, Pivotal Group, Desert Troon, Seldin, Parker, Loftus, JP Morgan Chase, Toyota, and Countrywide matters, pursuant to A.R.S. §§ 38-431.03(A)(3), (3), (4), and (7).
- c. Discussion and consultation with legal counsel and Staff regarding implications of HB 2003 on PSPRS and Staff, pursuant to A.R.S. § 38-431.03 (A) (1).

6. Call to the Public:

This is the time for the public to comment. Members of the Fund Manager may not discuss items that are not specifically identified on the agenda, except to address criticism from the public. Therefore, pursuant to A.R.S. § 38-431.01(H), the Fund Manager's reaction to any public comment is limited to addressing criticism or recommending that the Fund Manager or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

7. Set Next Meeting Date

8. Adjournment