

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM**

**BOARD OF TRUSTEES MEETING – JUNE 23, 2010**

- Trustees Present:* Mr. Brian Tobin, Trustee, Interim Chairman  
Ms. Lori Roediger, Trustee, Interim Vice Chairperson  
Mr. Tim Dunne, Trustee  
Mr. Gregory Ferguson, Trustee  
Mr. Alan Maguire, Trustee
- Others Present:* Mr. Jim Hacking, Administrator  
Ms. Tracey Peterson, Assistant Administrator, COO  
Mr. Ryan Parham, Assistant Administrator, CIO  
Mr. Marty Anderson, Chief Equities Analyst  
Mr. Mark Steed, Alternatives Investment Analyst  
Ms. Michele Weigand, Investment Contracts Paralegal  
Ms. Gail Nova, Administration Manager  
Ms. Bridget Feeley, Internal Audit and Compliance Officer  
Mr. Paul Hemmes, Training/Audio Visual Specialist  
Mr. Allan Martin, Managing Partner, New England Pension Consultants (“NEPC”)  
Mr. Don Stracke, Senior Consultant, NEPC  
Ms. Paige Martin, Partner, Kutak Rock LLP  
Mr. Tom Willard, Systems Development Manager  
Ms. Karen Lewis, Accounting Manager

1. Call to Order; Roll Call; Opening remarks.....Mr. Brian Tobin  
Board Interim Chair

The meeting was called to order by Chairman Tobin at 1:00 p.m.  
Mr. Dunne, Mr. Ferguson, Mr. Maguire, Ms. Roediger and Mr. Tobin were in attendance.

2. Approval of the 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 upon the request of any Board of Trustees member.
- a. Acceptance of Transfer Between State Retirement Systems of Scott Kendrick.
  - b. Acceptance of Transfer Between State Retirement Systems of Masaki Ferraris.
  - c. Acceptance of Transfer Between State Retirement Systems of Ashton Shewey.
  - d. Acceptance of Transfer Between State Retirement Systems of Brian Reed.
  - e. Acceptance of Transfer Between State Retirement Systems of Kirk Bryce.
  - f. Acceptance of Transfer Between State Retirement Systems of Charles Jones.
  - g. Acceptance of Transfer Between State Retirement Systems of Diana Benson.
  - h. Acceptance of Transfer Between State Retirement Systems of Elizabeth Franco.
  - i. Acceptance of Transfer Between State Retirement Systems of Milton Davis.
  - j. Acceptance of Transfer Between State Retirement Systems of Terry Wilson.
  - k. Acceptance of Transfer Between State Retirement Systems of Barbara Snider.
  - l. Acceptance of Transfer Between State Retirement Systems of Grace Marin-Woolsey.
  - m. Acceptance of Transfer Between State Retirement Systems of Mark Carpenter.
  - n. Acceptance of Transfer Between State Retirement Systems of James Wasson.

- o. Acceptance of Transfer Between State Retirement Systems of Edward Piering.
- p. Acceptance of Transfer Between State Retirement Systems of Larry Newcomer.
- q. Acceptance of Transfer Between State Retirement Systems of Manuel Dominguez.
- r. Acceptance of Transfer Between State Retirement Systems of Michael Adams.
- s. Acceptance of Transfer Between State Retirement Systems of Raymond Navas.
- t. Acceptance of Transfer Between State Retirement Systems of Karl Sowards.
- u. Acceptance of Transfer Between State Retirement Systems of Ronald Stiso.
- v. Acceptance of Transfer Between State Retirement Systems of Neal Ronald.
- w. Acceptance of Transfer Between State Retirement Systems of Gregory Dykstra.
- x. Acceptance of Transfer Between State Retirement Systems of William Sparpana.
- y. Acceptance of Transfer Between State Retirement Systems of Andrew Rubalcava.
- z. Acceptance of Transfer Between State Retirement Systems of Jesse Mitchell.
- aa. Acceptance of Elected Officials' Retirement Plan of normal benefit of Patricia Escher.
- bb. Acceptance of Elected Officials' Retirement Plan of normal benefit of Danna Hendrix.
- cc. Acceptance of Elected Officials' Retirement Plan of normal benefit of Nanette Warner.
- dd. Acceptance of Elected Officials' Retirement Plan of normal benefit of Barbara Mundell.
- ee. Acceptance of Elected Officials' Retirement Plan of normal benefit of Richard Ortega.
- ff. Acceptance of Elected Officials' Retirement Plan of normal benefit of termination of survivor benefit of Mildred Kortsen.
- gg. Acceptance of Elected Officials' Retirement Plan of termination of benefit of Robert Gillette.
- hh. Acceptance of Elected Officials' Retirement Plan of termination of benefit of Leonard Copple.
- ii. Acceptance of Elected Officials' Retirement Plan of guardian - split benefit of Catherine Dorgan.
- jj. Acceptance of Elected Officials' Retirement Plan of guardian - split benefit of Mary Dorgan.

**MOTION 6-144-10** At 1:03 p.m.  
**Motion:** To accept the consent agenda as presented.  
**Moved by:** Mr. Maguire  
**Seconded by:** Mr. Ferguson  
**Discussion:** None  
**In Favor:** Unanimous  
**Motion Passes:** Passes

- 3. Approval of the Minutes of the May 26, 2010 and June 3, 2010 Public Meetings of the PSPRS Board of Trustees.....Mr. Brian Tobin

Mr. Tobin stated that, with respect to motion 5-113-10 as set forth in the minutes for the May 26, 2010 meeting, his recollection is that the motion was made by Mr. Maguire and not Mr. Dunne. Staff was directed to research this motion and return the minutes to the Board at the next meeting.

**MOTION 6-145-10** At 1:06 p.m.  
**Motion:** To approve the June 3, 2010 minutes as presented.  
**Moved by:** Mr. Maguire  
**Seconded by:** Mr. Dunne  
**Discussion:** None  
**In Favor:** Unanimous  
**Motion Passes:** Passes

4. Investments – Presentation, Discussion and Appropriate Action Regarding Recommendations that were made and the Action that was taken in the Investment Committee Meeting that was held on Wednesday, May 26, 2010 commencing at 10:00 a.m.....Ms. Lori Roediger  
 .....Chair, Investment Committee  
 ..... Mr. Martin Anderson  
 ..... Chief Equity Analyst  
 .....Mr. Allan Martin  
 .....Partner, New England Pension Consultants

Chairman Tobin noted that Mr. Parham, Chief Investment Officer, was attending a conference and would not be participating in today’s meeting.

- a. Presentation by the Investment Department Staff, Albourne America LLC and Bluecrest Capital Management representative(s) and discussion and possible **Action** regarding an investment of up to \$100,000,000 in Blue Trend Fund or appropriate feeders, blockers or parallel funds. .... Mr. Martin Anderson  
 ..... Mr. Allan Martin  
 ..... Mr. John Shearman  
 ..... Partner, Albourne America, LLC

Ms Roediger reported that the Investment Committee recommends an investment of up to \$100,000,000 in the Blue Trend Fund.

Mr. Anderson reported that Investment Departments Staff’s recommendation to retain a Commodities Trading Advisor is driven by the planned continued movement of the portfolio away from the equity markets. The recommendation is also in anticipation of the asset allocation approved previously by the Board that will go into effect on July 1, 2010; this asset allocation includes an increased allocation to the Global Tactical Asset Allocation (GTAA). He said this strategy will further diversify the GTAA portfolio and provide some “tail risk” protection. He said that Investment Department Staff compared several top tier CTA managers and has strong convictions that the BlueTrend Fund will produce attractive risk adjusted returns and diversify current GTAA return sources. He explained that returns of the CTA managers have exhibited very low correlations to traditional asset classes due to their unique trend-following nature. Based on the historical data, CTA managers performed especially well during periods of financial crisis, which can provide substantial diversification benefits. He explained that the CTA is a divergent strategy that invests in the trends and momentum when markets are diverting from normal, whereas the current GTAA managers employ value strategies that invest with the idea that markets will converge back to historical benchmarks.

Mr. Shearman, Albourne America LLC, gave a brief overview of the CTA strategy and Albourne’s due diligence in this asset class. He stated that the BlueTrend Fund is very diversifying and highly complementary to the Trust’s portfolio. He said that Bluecrest Capital Management is a blue-chip, high quality organization so the Trust is accessing what Albourne considers to be a best in class execution.

Mr. Neel Purohit, Vice President - Product Portfolio Specialist, Bluecrest Capital Management, gave a brief overview of the firm. He said Bluecrest was founded in 2000 by Michael Platt and William Reeves, both formerly from JP Morgan, as a fixed-income-focused, macro trading firm. Bluecrest formed the BlueTrend Fund in 2004. He gave a brief overview of the CTA strategy and described CTAs as directional trading strategies that aim to capture and ride market trends through historically traded futures markets as those are the easiest way to gain exposure to commodities. He said that algorithms are created by means of in-depth market research and technical analysis of historic price movements. He explained that the behavior in market reversals is key to trend following algorithms and that once a trend significantly weakens and begins to reverse CTAs are likely to exit the strategy.

Mr. Purohit explained that what differentiates BlueTrend Fund from their competitors is that it is a fully diversified daily trend follower trading in over 150 instruments, almost twice the industry average. These instruments include futures, FX forwards, equity sector swaps, commodities, bonds, etc. He said their trade execution is objective and that trades are executed with the sole purpose of tracking the model. There is no layer of discretion and traders are not encouraged to take short term risk. He said they employ a fully integrated investment process and that central to their algorithm is the concept of using the intensity of the signal to size positions. This is achieved via the use of trend indicator response curves which help protect the system from the risk reversals that often follow the overextended trend. This integrated investment process and the use of response curves means that BlueTrend incrementally invests on the upswing of a trend and incrementally divests in order to try to extract from the trend maximum value with maximum security. He said that their advantage over their competitors is their ability to predict when the trends will reverse.

Ms. Roediger asked how this investment fits within the asset allocation policy and where the funding will come from.

Mr. Anderson responded that this is appropriate for the GTAA space and Albourne and NEPC concur. He said this investment will bring the portfolio to its allocation target of 8%. He said this investment will be displacing equities. Mr. Martin added that the idea of the GTAA was to have an element of diversified performance, reduce equity exposure and create fairly stable returns and NEPC finds this to be an excellent component to complete the GTAA.

Mr. Maguire asked what the return expectations are for the 1, 3 and 5 year periods. Mr. Puirot responded that they project 15 to 20% over a 12 month period and that will continue over the 5 year period. Mr. Maguire asked if that was gross or net of fees. Mr. Purohit responded that was net of fees.

Mr. Maguire asked Mr. Purohit to explain the fee structure. Mr. Purohit responded that there is a 2% management fee and a 20% out performance fee based on a high watermark that is set at the time of investment and charged on a periodic basis. He said the performance fee is based on absolute return.

Mr. Maguire asked what the benchmark will be. Mr. Anderson replied the Investment Department Staff has been discussing several benchmark options with NEPC and the plan is to make a recommendation for the GTAA to the Trustees at the August meeting. He explained that the asset class has some nuances that are not defined as cleanly as some of the other asset classes and that Investment Department Staff is in discussion with NEPC and Albourne on this topic.

<b>MOTION 6-146-10</b>	At 1:32 p.m.
<b>Motion:</b>	To approve an investment of up to \$100,000,000 in Blue Trend Fund or appropriate feeders, blockers or parallel funds pending legal and due diligence work.
<b>Moved by:</b>	Ms Roediger
<b>Seconded by:</b>	Mr. Dunne
<b>Discussion:</b>	Mr. Maguire asked the meaning of legal and due diligence work. Mr. Anderson explained that Investment Department Staff and legal counsel are in the process of completing the legal work on the documentation for the investment and negotiating side letter terms. In regard to due diligence, there may be some questions that remain at the time an investment is proposed but for this particular investment the due diligence has been completed.
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

Mr. Maguire asked what is meant by “appropriate feeder, blocker or parallel funds.” Ms. Martin, from Kutak Rock, responded that at times there are different funds that are related and to cover them all;

they use that catch all language to explain it. Mr. Anderson explained that typically a fund will have an off-shore and an on-shore feeder and you are ultimately investing in the same strategy but for tax reasons various investors may have to go through an intermediary to get to the underlying fund and those intermediaries are the feeder funds; they are pass through entities. He continued that blocker funds are entities that have been set up for some state institutions or to block any Unrelated Business Taxable Income (UBTI) from flowing back to the master fund.

Mr. Purohit stated that the Blue Trend Fund has been structured with an on-shore fund domiciled in Delaware and an off-shore fund that is domiciled in the Caymans. Those are both feeder funds to the master fund which does the actually trading. Mr. Maguire asked for which fund were the returns stated. Mr. Purohit responded that the returns are for the off-shore fund and that the on-shore fund differs very slightly. Mr. Maguire asked if this was a feeder fund and if so what it is feeding. Mr. Purohit responded that it is a feeder fund that feeds the master fund. He said that the on-shore fund, which is a smaller fund, has the same return, the only difference is that it will pay slightly different fees because it is smaller and based on the economies of scale it may get charged just a slight bit more in terms of 1 to 10 basis points on an annualized basis due to the pricing power of the fund.

Mr. Shearman stated that in terms of the way this fund is structured, it is industry standard to have an off-shore and on-shore and typically institutional investors go off-shore and taxable investors invest on-shore. He explained that they are structured that way for tax reasons and it allows the fund to have investors both inside and outside the United States. He continued that it is also standard to see some small calibrated difference in the returns whenever there are different share classes.

Mr. Anderson stated that the Trusts investment policy is to invest in blocker entities with the exception that if it deters returns by greater than 100 basis point, then we would opt to go with the non-blocking entity. Another exception is if the blocker is an off-shore corporation then we would opt for the on-shore vehicle for legal reasons.

- b. Presentation by Investment Department Staff, New England Pension Consultants (NEPC), Albourne America LLC, and FrontPoint Partners L.L.C representative(s) and discussion and possible **Action** regarding an investment of up to \$40 million in FrontPoint SJC Direct Lending Fund or any appropriate feeder, blocker or parallel fund of same.....  
..... Mr. Martin Anderson  
.....Mr. Allan Martin  
.....Mr. John Shearman  
..... .Mr. Steve Czech  
.....Partner, FrontPoint Partners L.L.C.

Mr. Stephen Czech, Managing Director, FrontPoint Partners described what they do as an unregulated, finite-lived, self-liquidating commercial bank. They make loans to middle market companies almost exclusively in North America that generate annual revenue of anywhere from \$75 to \$500 million per year and annual EBITDA of \$7.5 to \$50 million dollars. He said their loans are all secured and fall into one of four structure categories: Asset-Based, Cash Flow, Enterprise Value and Debtor-In-Possession (DIP) Financing loans. He said all of their loans have a 100% contractual profile which means the return composition has for contractual elements and that return profile ranges from 12% to 15% net of fees. The four components of that return profile consists of: 1) a commitment fee which in today's environment averages about 300 basis points (bps); 2) a floating cash interest rate that is payable monthly and comprised of a LIBOR floor, which, in today's environment, is about 300 bps, plus a credit spread of anywhere from 600 to 1500 bps over the LIBOR floor of 300 bps, depending whether they are engaged in first or second lien secured lending; 3) a pick or paid in-kind component that is added to the cash credit spread that is based on LIBOR; and a prepayment penalty that ranges from 300 to 500 bps. The objectives of the FrontPoint-SJC Direct Lending Fund are to seek to: preserve investor'

capital, provide investors with quarterly cash flow, maintain low volatility, and provide investors with monthly individual loan-level transparency. He said the attributes that make this strategy so attractive are the changes in the competitive landscape since the Lehman crisis and the forthcoming regulatory reform. He said FrontPoints' advantage over its competitors is their experienced, time-tested team which has direct lending fund management expertise that enables them to provide "one-stop" capabilities including sourcing, underwriting, portfolio management and restructuring.

Ms. Roediger asked how confident the team was that they will be able to fill their anticipated portfolio and whether there is a point where they may determine there is no longer value in drawing down capital. Mr. Czech responded that they are highly confident that they will be able to fill the portfolio over the 24 month investment period. In the event they have more capital than good investment opportunities, they do have precedent with respect to their previous fund to draw on. There they returned capital to L.P.'s rather than charge them fees on it.

Mr. Martin stated that in the meeting materials there is a document titled "Hedge Fund Investment Recommendation which includes a market survey. He said this lays out where NEPC thinks the opportunity is and why they think there is an economic opportunity and includes some of the statistics, spreads available in the market, the decline in the number of lenders and considerations for success in the strategy. He said the document also includes a list of all of the companies in this space that NEPC has done diligence on that are employing this strategy. NEPC felt this was the best choice in the direct lending strategy.

Mr. Anderson and Albourne had worked on evaluating the same strategies and that Investment Department Staff worked interactively with them to look at the alternative managers that they had done due diligence on. He said that out of those, this is the strategy that Albourne is comfortable with and therefore concurs with the decision to recommend.

Mr. Tobin asked what their process is to determine to whom they will make loans. Mr. Czech explained that there is a sourcing process and then a process to determine whether they are a qualified borrower. He said they have a sourcing group employed by the fund whose job is to call on small businesses, commercial and investment banks, finance companies, restructuring boutiques, law firms, accounting firms and private equity funds. The goal of that sourcing group is to find loans that meet their eight investment criteria. The investment criteria or best practices are: 1) they will only loan money to a company that has positive cash flow; 2) the leverage as a multiple of EBITDA has to be between 1.5 to 2.5 times for a first lien loan and between 2.5 and 4 times if it is a second lien loan; 3) the cash flow drivers of the company must be stable; 4) identify at least 2 and preferably more repayment sources; 5) assure they control the tranche in which they invest; 6) assure they will get the targeted returns based on the business, financial and structural risk of the particular borrower; 7) they invest in companies that will not generate headline risk or cause L.P.s or the firm any type of embarrassment; and 8) they must be confident that the company and the management have the ability to meet contractual liabilities out of operating cash flow.

Mr. Anderson commented that the Investment Department Staff is recommending that this investment be included in the portfolio as a High Yield component to the Fixed Income asset allocation whereas NEPC had recommended in their meeting material that it be included as a Credit Opportunities allocation. Mr. Martin commented that Staff had provided compelling arguments and that NEPC now defers to the Staff's recommendation.

Mr. Maguire asked where the funding is coming from. Mr. Anderson responded that the funding is coming out of equities as the portfolio is slightly underweight in fixed income and we are reallocating as we move to the new asset allocation effective July 1st.

<b>MOTION 6-147-10</b>	At 2:01 p.m.
<b>Motion:</b>	To approve an investment of up to \$40 million in FrontPoint SJC Direct Lending Fund or any appropriate feeder, blocker or parallel fund of same.
<b>Moved by:</b>	Ms Roediger
<b>Seconded by:</b>	Mr. Dunne
<b>Discussion:</b>	
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- c. Presentation by Investment Department Staff, StepStone Group LLC and Avalon Ventures Management LLC representative(s) and discussion and possible **Action** regarding an investment of up to \$20 million in Avalon Ventures VIII, L.P. or any appropriate feeder, blocker or parallel fund of same. .... Mr. Martin Anderson  
..... Mr. Mark Steed  
..... Mr. Jay Rose  
.....Mr. Kevin Kinsella  
..... Founder and General. Partner, Avalon Ventures Management L.L.C.  
..... Mr. Steve Tomlin  
..... General Partner, Avalon Ventures Management L.L.C.

Chairman Tobin stated that there was a typographical error on the agenda with respect to this item. The actual fund under consideration is Avalon Ventures IX but because it was posted as Avalon Ventures VIII, no action on this opportunity can be taken at this time. It will be postponed until such time as it is noticed correctly.

- d. Discussion and possible **Action** regarding Internal Audit and Compliance Officer Bridget Feeley’s request to participate in a compliance training opportunity at Crestline Investors Inc. in Dallas, Texas. .... Mr. Martin Anderson  
..... Ms Bridget Feeley  
..... Internal Audit and Compliance Officer

Ms Roediger reported that the Investment Committee recommends the Board approve Ms Feeley’s request to participate in a compliance training opportunity at Crestline Investors Inc.

Chairman Tobin asked Ms Feeley to give some background on the reason she is going and what she plans on achieving.

Ms. Feeley stated that the training was recommended by Mr. Parham because, with the addition of more diverse asset classes, there will be more intricate compliance issues. She said that Mr. Parham and Mr. Anderson felt that, of all our investment partners, Crestline had a very strong and well documented compliance area and they made the offer for her to go and see what they are doing so that she can return with knowledge she can apply when looking at other investments and at our internal controls.

<b>MOTION 6-148-10</b>	At 2:0 p.m.
<b>Motion:</b>	To approve Ms Feeley's request to participate in a compliance training opportunity at Crestline Investors Inc.
<b>Moved by:</b>	Ms Roediger
<b>Seconded by:</b>	Mr. Dunne
<b>Discussion:</b>	
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- e. Report by Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio update. .... Mr. Martin Anderson

Mr. Anderson reported that the preliminary reports were included in the mailing and that a final report has been handed out to the Trustees. He said that May was a difficult month across equity markets, commodities and a few other areas but on a relative basis the Trust did well and brings the fiscal year-to-date return to 15.65% which is 157 basis points above the portfolios index. He said most of the alternatives did fairly well other than in Real Assets where the commodities funds almost universally struggled during the month.

Mr. Maguire asked that the numbers be presented net of fees in the future.

Mr. Martin responded that NEPC will be providing that in their quarterly reports and they have the ability to do that limited only by the ability to get the past fees through the custodian and Staff.

Chairman Tobin asked Mr. Anderson to comment on the Real Estate portfolio.

Mr. Anderson responded that the NECRIF Index back fills on a trailing quarterly basis because of information availability. Staff believes we have received most of the appraisals and statements for this year and we do not anticipate any additional write-downs other than what we had last month which had a significantly negative effect on the portfolio.

- f. Report by Compliance Auditor and discussion regarding investment compliance, holdings and transactions as of June 30, 2010. ....Ms. Bridget Feeley

Ms. Feeley stated that the only exception noted is that GTAA is not currently an asset allocation category so GTAA is being reported under U.S. Equities. She said, taking that into account, we are within all of the ranges in each of the asset classes and also looking forward to the new asset allocation which takes effect July 1<sup>st</sup>. As of now, we are in compliance with all the ranges.

**Regarding the following agenda item, Pursuant to A.R.S. §§ 38-431.03(A)(3),(4) and (7), notice is hereby given to the Trustees of the PSPRS Board and the general public that the PSPRS Board may vote to go into Executive Session, which will not be open to the public.**

- 9. Discussion with and instruction to legal counsel regarding recent developments and legal issues (including settlement discussions and threats of litigation) involving the Trust's custodians, lenders, securities lending agents, vendors, advisors, investments or investment managers, members or partners (as well as any investments managed by the Trust's investment managers or partners) and Appropriate Action Regarding same.
- 10. Other Business - Presentation, Discussion and Appropriate **Action** Regarding Recommendations that were made during the Operations, Governance Policy and Audit Committee Meeting that was held on Wednesday, June 23, 2010 at 10:00 a.m.....Mr. Brian Tobin

Chairman of the Operations, Governance Policy and Audit Committee

- a. Presentation, Discussion and Appropriate **Action** Regarding utilization of bank services for processing of benefit and refund disbursements and other payroll related items.....Ms. Tracey Peterson  
Chief Operating Officer

Ms. Peterson presented three proposals regarding utilization of bank services to process benefit and refund disbursements.

Proposal 1 – Stop mailing direct deposit notices and have them available online through our website: [www.psprs.com](http://www.psprs.com).

Advantages:

- Budget savings of over \$100,000 due to reduction of supplies and postage.

Disadvantages:

- Does not address the business continuity plan in event of a disaster.
- Members have access to direct deposit notices only on the PSPRS website.
- Members without internet access will not be able to view the direct deposit statements.
- May be viewed as a reduction in customer services.

Proposal 2 - Stop mailing direct deposit notices and make them available online through the PSPRS website and move bank accounts to BNY Mellon from Wells Fargo.

Advantages:

- Budget savings of over \$100,000 due to reduction of supplies and postage.
- Consolidation of bank accounts with only one bank to work with in event of a disaster.

Disadvantages:

- Does not address the business continuity plan in event of a disaster.
- Members have access to direct deposit notices only on the PSPRS website.
- Members without internet access will not be able to view the direct deposit statements.
- May be viewed as a reduction in customer services.
- Members without a bank account will be charged to cash their checks.
- Out of state checks may cause a delay in deposits to a member's account.

Proposal 3 – Stop mailing direct deposit notices, have them available online through the PSPRS website, move bank accounts to BNYMellon from Wells Fargo and outsource pension payment processing to BNYMellon.

Advantages:

- Meets our business continuity initiative.
- Members have access to their accounts through Mellon.
- Tax reporting and mailing.
- Gains efficiencies with technology, security, tax compliance.
- Bank consolidation is more efficient.

- Members can opt out and receive their direct deposit notice in the mail.

Disadvantages:

- Lose flexibility/control over processing pension payment.
- Increase in costs.
- Members without a bank account will be charged a fee to cash their checks.
- Out of state checks may cause delay in deposits to a member's account.

A discussion was held between the Board, Ms. Peterson and Mr. Hacking regarding the advantages and disadvantages of the three proposals. All options must be explored since there may be other less costly ways to achieve the business continuity plan other than through BNY Mellon.

<b>MOTION 6-149-10</b>	At 2:35 p.m.
<b>Motion:</b>	To accept proposal #3: Do not mail SurePays, move PSPRS bank accounts to BNY Mellon and BNY Mellon will process pension payroll. Direct Staff to review various ways of implementation with a target changeover date of January 1, 2011.
<b>Moved by:</b>	Mr. Dunne
<b>Seconded by:</b>	Mr. Maguire
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- b. Presentation, Discussion and Appropriate **Action** Regarding the proposed FY 2011 PSPRS Administrative Budget.....Ms. Karen Lewis  
Accounting Manager

The status of the FY 2010 Administrative Budget as of June 16, 2010 was presented to the Board by Ms. Lewis who indicated PSPRS is projected to be approximately 6% under the FY 2010 budget. The FY 2011 proposed budget is less than 95% of expected FY 2010 spending.

A discussion was held regarding the 2011 proposed Administration Budget which includes two proposals for the Investment Division: one by the Administrator and the other by the Chief Investment Officer. The Administrator's version includes four vacant agency positions while the Chief Investment Officer's version has two vacant agency positions and proposes adding to staff an Assistant Chief Investment Officer and a Senior Risk Analyst. Also proposed is an increase in salary as equitable adjustments for two of the Investment Team members. Mr. Maguire stated he has a concern regarding increased salaries in this economic environment, but that due to the expansion and the increased complexity of the portfolio, he understands the Chief Investment Officer's Investment Department proposed budget.

<b>MOTION 6-150-10</b>	At 2:45 p.m.
<b>Motion:</b>	To accept the proposed FY2011 Administrative Budget with the Chief Investment Officer's proposal for the Investment Division with the concurrence of the Administrator.
<b>Moved by:</b>	Mr. Dunne
<b>Seconded by:</b>	Ms. Roediger
<b>Discussion:</b>	Mr. Maguire recommended omitting firm names in future budgets so as not to imply commitment to those organizations.
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- c. Presentation, Discussion and Appropriate **Action** Regarding the proposed FY 2011 contract for Gabriel, Roeder, Smith & Company, the PSPRS Actuarial Firm..... Ms. Karen Lewis

Gabriel, Roeder, Smith & Company is the actuarial firm that was selected by PSPRS through the Request for Proposal process. In addition to the contract, there is an additional line item for projections to be used in developing legislative strategy and a legislative agenda to formulate initiatives to help grow the PSPRS funding ratio. This is a renewal for the second year of a three year contract.

<b>MOTION 6-151-10</b>	At 3:05 p.m.
<b>Mion:</b>	To approve the FY 2011 contract for Gabriel, Roeder, Smith & Company as presented.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Maguire
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- d. Presentation, Discussion and Appropriate **Action** Regarding the proposed FY 2011 contract for Heinfeld Meech & Co, the PSPRS External Audit Firm.....Ms. Karen Lewis

Mr. Hacking informed the Board this is the third year of the contract with Heinfeld Meech & Co. The search for this firm was conducted through an informal process. The fee has remained unchanged for three years. Mr. Maguire suggested we begin a formal Request for Proposal process since FY 2011 will be the fourth year that PSPRS will have used Heinfeld Meech & Co.

<b>MOTION 6-152-10</b>	At 3:09 p.m.
<b>Motion:</b>	To approve the Heinfeld Meech & Co. contract for FY 2011.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Maguire
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- e. Presentation, Discussion and Appropriate **Action** Regarding the proposed FY 2011 contract for Kutak Rock, LLP, the PSPRS Legal Counsel.....Ms. Karen Lewis

Mr. Hacking stated that PSPRS has had a long history with Mr. Lieberman, in excess of twenty years, and the firms with which Mr. Lieberman has been affiliated have changed over time. Ms. Paige Martin stated she understood that a formal RFP process had been conducted when Mr. Lieberman was with Lieberman, Gerding, Anderson, and Dodge and Mr. Lieberman was interviewed at that time by the Board. She further said that she has worked with Mr. Lieberman for six years and that there has not been a formal RFP process conducted, but that renewal of the contract was on a year-by-year basis. The length of tenure has been approximately 25 years. Mr. Maguire said that he is unable to support this contract without issuing a Request for Proposal.

<b>MOTION 6-153-10</b>	At 3:22 p.m.
<b>Motion:</b>	To amend this contract so that the effective date is July 1, 2010 and the termination date is December 31, 2010. This will give six months for an RFP process and time to prepare for a transition, if necessary, to other counsel.
<b>Moved by:</b>	Mr. Maguire
<b>Seconded by:</b>	Mr. Ferguson
<b>Discussion:</b>	Make sure the RFP describes the full range of services needed by PSPRS are available through one or more legal firms. This process is manageable through the Attorney General's office with their list of legal specialists. We can enter into negotiations with the Office of the Attorney General or carefully craft a Request for Proposal. PSPRS might hire different attorneys and/or firms in order to meet our requirements.
	Mr. Tobin stated he is satisfied with the services provided by Mr. Lieberman and his firm which has well represented PSPRS. He will vote "no" on the motion. Mr. Maguire clarified that the motion is not a negative reflection on the performance of Kutak Rock, but relates to the fiduciary responsibilities of a board which should periodically conduct RFP processes for important vendor relationships.
<b>In Favor/Opposed:</b>	In Favor: Mr. Dunne, Mr. Ferguson, Mr. Maguire, Ms. Roediger. Opposed: Mr. Tobin
<b>Motion Passes:</b>	Passes

- f. Presentation, Discussion and Appropriate **Action** Regarding the proposed FY 2011 contract for LRS Consulting, LLC, which is for assistance with the Local Board Network Training Program.....Ms. Karen Lewis

Mr. Tobin summarized the change in the contract from last year's document and stated this was not subject to the RFP process. Also, Mr. Tobin informed the Board of the background of the principal of LRS Consulting.

<b>MOTION 6-154-10</b>	At 3:26 p.m.
<b>Motion:</b>	To approve the contract at half the rate that was charged last year.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Ms. Roediger
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- g. Presentation, Discussion and Appropriate **Action** Regarding the lobbyist policy and lobbyist contract extension for HighGround, Inc.....Mr. Jim Hacking  
Administrator

ALSO SEE AGENDA ITEM 10 (h).

Discussion was held regarding the multiple year term if the contract which should be restated as an annual renewal of the contract for one year which is renewable for up to three years. The contract amounts to be paid for the lobbyist services are very high for Arizona. The Staff was directed to conduct additional negotiations with Public Policy Partners and HighGround and to further research the market. It was requested this agenda item be tabled until the August Board Meeting and the Operations, Governance Policy and Audit Committee was directed to enter into discussions with Public Policy Partners and HighGround regarding fees. The Staff was directed to solicit other proposals in advance of the next meeting, since the prior search for lobbyists was not conducted in a formal RFP process.

<b>MOTION 6-155-10</b>	At 3:51 p.m.
<b>Motion:</b>	To enter into discussions with HighGround and Public Policy Partners regarding their contracts and review of proposals submitted by other lobbyists with the Operations, Governance Policy and Audit Committee for a report suggestions to the full Board in August.
<b>Moved by:</b>	Mr. Dunne
<b>Seconded by:</b>	Ms. Roediger
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- h. Presentation, Discussion and Appropriate **Action** Regarding the lobbyist policy and lobbyist contract extension for Public Policy Partners.....Mr. Jim Hacking

SEE AGENDA ITEM 10 (g).

- i. Update, Discussion and Appropriate **Action** Regarding the EPIC data system and the difference between backing it up in Denver and mirroring to Denver.....Mr. Tom Willard  
Systems Development Manager

Mr. Tom Willard presented the differences between Log Shipping and Mirroring of the EPIC operations database:

Log Shipping: a small file of transactions that occurred since the last log was sent to Denver keeping Denver current with the primary operational database.

Mirroring: a constant connection is kept between the principal database and the mirrored database in Denver.

Mr. Willard proposed Log Shipping a file of the database transactions every 5 minutes to Denver which lets the file grow for 5 minutes and then sends it to Denver. He stated that Log Shipping is easier than mirroring and the process of establishing the Log Shipping process will take two to three weeks.

- j. Review, Discussion and Appropriate **Action** Regarding the June 2010 bill for legal services performed in May, 2010.....Mr. Jim Hacking

Mr. Hacking reported there was a reduction in fee of \$408 for an item on the bill for legal services for the Investment Department.

<b>MOTION 6-156-10</b>	At 4:03 p.m.
<b>Motion:</b>	To approve the corrected bill for legal services performed in May 2010.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Dunne
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- k. Written update on the progress of the Local Board Training Program with Possible Discussion and Appropriate **Action**.....Mr. Robert Ortega  
Local Board Training Coordinator

Mr. Tobin reported the Operations, Governance Policy and Audit Committee was pleased to hear the first PSPRS Local Board Training Webinar was a successful training tool with good feedback and this will be continued in the future.

- I. Presentation, Discussion and Possible Appropriate **Action** Regarding the FY 2011 Audit Plan and Risk Assessment.....Ms. Bridget Feeley  
Internal Audit and Compliance Officer

The Audit Plan and Risk Assessment’s general content was presented to the Board by Bridget Feeley. This report was a result of Ms. Feeley’s discussions with members of the Board and Staff. The audit plan for FY 2011 will be conducted beginning with the areas of highest risk.

<b>MOTION 6-157-10</b>	At 4:10 p.m.
<b>Motion:</b>	To approve the Audit Plan and Risk Assessment.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Maguire
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- m. Presentation, Discussion and Possible Appropriate **Action** Regarding compliance and internal audit.  
Ms. Bridget Feeley  
Internal Audit and Compliance Officer

There have been no exceptions noted in the area of travel reimbursements and expenses. Ms. Feeley reported that it had been requested there be more transparency in travel documentation as a result the travel policy and reimbursement forms have been revamped by the Accounting Department.

- 11. Presentation, Discussion and Appropriate **Action** Regarding options for fiduciary insurance for the PSPRS Board of Trustees.....Mr. Marc Lieberman  
Ms. Paige Martin  
Partner, Kutak Rock

Mr. Hacking gave a status report of the progress in locating fiduciary insurance for the Board members to insure the types of behavior not covered by statutory immunities and insurance coverage provided by the Arizona Department of Administration. The Staff will contact firms that write coverage for conduct such as gross negligence, fraud, etc. and if there is such coverage available, what would be the price.

- 12. Discussion and Appropriate **Action** Regarding Board of Trustee member requests to participate in training, educational and due diligence opportunities.....Mr. Brian Tobin

There were no requests for training, educational and due diligence opportunities.

- 13. Discussion and Appropriate **Action** Regarding the agenda of the Annual Meeting of the Board of Trustees to be held on September 15 and 16, 2010.....Mr. Brian Tobin

Mr. Tobin named some items to be included in the agenda for the Annual Meeting of the Board of Trustees:

- Legislative agenda
- Reports from Investment consultants
- The annual review of the Administrator
- Board of Trustee elections

Regarding the following two agenda items, Pursuant to A.R.S. §§ 38-431.03(A)(2), (3),(4) and (7), notice is hereby given to the Trustees of the PSPRS Board and the general public that the PSPRS Board may vote to go into Executive Session, which will not be open to the public.

14. Discussion with and Appropriate Instruction by the Board of Trustees 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, Miller, Martin, ApexCapital, Staeck, BNY Mellon, Pivotal Group, Desert Troon, Seldin, Parker, Loftus, JP Morgan Chase, Toyota, Goldman Sachs, Jacobs and Countrywide matters and Appropriate Action Regarding same.....Mr. Marc Lieberman

15. Call to the Public:

**This is the time for the public to comment. Members of the Board of Trustees 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 Board of Trustees’ reaction to any public comment is limited to addressing criticism or recommending that the Board of Trustees or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.**

No members of the public came forward to speak.

16. The Board of Trustees may vote to go into Executive Session to discuss matters pursuant to A.R.S. §§ 38-431.03(A)(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 (and appropriate instruction to 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 (and appropriate instruction to counsel) 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, Miller, Martin, Cross, Jacobs, ApexCapital, Staeck, BNY Mellon, Pivotal Group, Desert Troon, Seldin, Parker, Loftus, JP Morgan Chase, Toyota, Goldman Sachs, and Countrywide matters, pursuant to A.R.S. §§ 38-431.03(A)(2), (3), (4), and (7).

<b>MOTION 6-158-10</b>	At 4:20 p.m.
<b>Motion:</b>	To recess the open meeting and enter Executive Session.
<b>Moved by:</b>	Mr. Maguire
<b>Seconded by:</b>	Mr. Dunne
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

17. Set the Next Meeting Date

The next meeting of the Board of Trustees will be held on Wednesday, August 18, 2010 at 1:00 p.m.

18. Adjournment

The meeting was adjourned at 4:36 p.m.

---

**Brian Tobin, Trustee, Interim Chairman**

---

**Lori Roediger, Trustee, Vice Chairperson**

---

**Tim Dunne, Trustee**

---

**Greg Ferguson, Trustee**

---

**Alan Maguire, Trustee**