

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM**

**BOARD OF TRUSTEES MINUTES**

**August 18, 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, Deputy Chief Investment Officer  
Mr. Mark Steed, Alternatives Investment Analyst  
Mr. Paul Corens, Alternatives Investment Analyst  
Mr. Mark Selfridge, Investment Analyst  
Mr. Shan Chen, 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  
Mr. John Shearman, Partner, Albourne America LLC  
Mr. Tom Cawkwell, Partner, Albourne America LLC  
Mr. Marc Lieberman, Partner, Kutak Rock  
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

Chairman Tobin thanked Mr. Marcus Aurelius, President of the Association of Retired Police Officers, for sending a letter of appreciation to the Board of Trustees for retaining Mr. Hacking for three more years. He also reported having received a letter from Mr. Chuck Ryan, Director of the Arizona Department of Corrections, inviting the Board members and certain staff to tour the penal institutions of Arizona.

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 Chad Southwick.
  - b. Acceptance of Transfer Between State Retirement Systems of William Gatewood.
  - c. Acceptance of Transfer Between State Retirement Systems of Jennifer Parks.
  - d. Acceptance of Transfer Between State Retirement Systems of Brett Klein.
  - e. Acceptance of Transfer Between State Retirement Systems of Karen Freund.

- f. Acceptance of Transfer Between State Retirement Systems of A. Anthony Nelssen.
- g. Acceptance of Transfer Between State Retirement Systems of Bernardino Mesa.
- h. Acceptance of Transfer Between State Retirement Systems of Carlos Contreras.
- i. Acceptance of Transfer Between State Retirement Systems of Sue Ann Earley.
- j. Acceptance of Transfer Between State Retirement Systems of Mark Wagner.
- k. Acceptance of Transfer Between State Retirement Systems of Teresa Waddell.
- l. Acceptance of Transfer Between State Retirement Systems of Timothy Mitten.
- m. Acceptance of Transfer Between State Retirement Systems of Richard Anemone
- n. Acceptance of Transfer Between State Retirement Systems of Grace Marin-Woolsey.
- o. Acceptance of Transfer Between State Retirement Systems of Steve Petraglia.
- p. Acceptance of Transfer Between State Retirement Systems of Larry Carter.
- q. Acceptance of Transfer Between State Retirement Systems of Anthony Lopez.
- r. Acceptance of Transfer Between State Retirement Systems of Gary Cordes.
- s. Acceptance of Transfer Between State Retirement Systems of Bruce Campbell.
- t. Acceptance of Transfer Between State Retirement Systems of Benjamin Butt Jr.
- u. Acceptance of Transfer Between State Retirement Systems of Ana Valencia.
- v. Acceptance of Transfer Between State Retirement Systems of Sheena Broek.
- w. Acceptance of Transfer Between State Retirement Systems of Doreena Wiegert.
- x. Acceptance of Transfer Between State Retirement Systems of John Day.
- y. Acceptance of Transfer Between State Retirement Systems of Michael Johnson.
- z. Acceptance of Transfer Between State Retirement Systems of Michael Borrello.
- aa. Acceptance of Transfer Between State Retirement Systems of Samantha Beatty.
- bb. Acceptance of Transfer Between State Retirement Systems of Charles Sabalos.
- cc. Acceptance of Transfer Between State Retirement Systems of Michael Tucker.
- dd. Acceptance of Transfer Between State Retirement Systems of Kevin Jex.
- ee. Acceptance of Transfer Between State Retirement Systems of Katherine Kragnes.
- ff. Acceptance of Transfer Between State Retirement Systems of Jamie Buckler.
- gg. Acceptance of Transfer Between State Retirement Systems of Sandra Trotter.
- hh. Acceptance of Transfer Between State Retirement Systems of Adaliz Cruz.
- ii. Acceptance of Elected Officials' Retirement Plan of normal benefit of Paul Arredondo.
- jj. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Jean Copple.
- kk. Acceptance of Elected Officials' Retirement Plan of normal benefit of Joseph Haughey.
- ll. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Grace Jenkins.
- mm. Acceptance of Elected Officials' Retirement Plan of normal benefit of Ellen Solper.
- nn. Acceptance of Elected Officials' Retirement Plan of termination of benefit of L Waldo De Witt.
- oo. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Suzanne Lupke.
- pp. Acceptance of Elected Officials' Retirement Plan of termination of benefit of William Gastelum.
- qq. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Margaret Nelssen.
- rr. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Hope Gastelum.
- ss. Acceptance of Elected Officials' Retirement Plan of termination of benefit of Robert Corcoran.
- tt. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Martha Gillette.
- uu. Acceptance of Elected Officials' Retirement Plan of normal benefit of Ronald Green.
- vv. Acceptance of Elected Officials' Retirement Plan of termination of survivor benefit of Eva Merrill.
- ww. Acceptance of Elected Officials' Retirement Plan of normal benefit of Patricia Nolan.
- xx. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Alva Peeler.
- yy. Acceptance of Elected Officials' Retirement Plan of termination of benefit of Jack Peeler.
- zz. Acceptance of Elected Officials' Retirement Plan of termination of benefit of Carol Urich.
- aaa. Acceptance of Elected Officials' Retirement Plan of termination of benefit of William Holohan.
- bbb. Acceptance of Settlement of Judge Stewart.

<b>MOTION 8-1-10</b>	At 1:05 p.m.
<b>Motion:</b>	To accept the consent agenda 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

3. Approval of the Minutes of the June 23, 2010 and June 28, 2010 Public Meetings of the PSPRS Board of Trustees.....Mr. Brian Tobin

<b>MOTION 8-2-10</b>	At 1:05 p.m.
<b>Motion:</b>	To amend the June 28, 2010 and June 28, 2010 minutes to indicate that Mr. Ferguson is a Trustee and not the Interim Vice Chairperson and to accept the minutes as amended.
<b>Moved by:</b>	Mr. Maguire
<b>Seconded by:</b>	Mr. Ferguson
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

4. Investments – Presentation, Discussion and Appropriate **Action** regarding Recommendations that were made in the Investment Committee Meeting that was held on Wednesday, August 18, 2010 commencing at 10:00 a.m.....Ms. Lori Roediger  
.....Chair, Investment Committee  
.....Mr. Ryan Parham  
..... Chief Investment Officer  
.....Mr. Allan Martin  
.....Partner, New England Pension Consultants
  - a. Presentation by the Investment Department Staff, New England Pension Consultants (NEPC) and Franklin Templeton Investments representatives and discussion and possible **Action** regarding an investment of up to \$70,000,000 in Franklin Templeton Emerging Markets Debt Opportunities Fund or appropriate feeders, blockers or parallel funds of same.  
..... Mr. Martin Anderson  
.....Deputy Chief Investment Officer  
..... Mr. Allan Martin  
..... Ms. Claire Husson-Citanna, CFA  
..... Portfolio Manager, Franklin Templeton Investments

Ms. Roediger reported that the Investment Committee approved a recommendation to the full Board to make a motion to approve an investment of up to \$70,000,000 in Franklin Templeton Emerging Markets Debt Opportunity Fund.

Mr. Stracke summarized the Asset Allocation Policy adopted by the Board in June which targeted 20% of the Trust’s total portfolio to fixed income. He said that 60% of the total would be deployed in US markets and 40% in Non-US markets, with close to 50% of the Non-US exposure assigned to Emerging Market Debt (EMD). He said that emerging market exposure is a strategic focus for NEPC because of the growth potential and the healthy balance sheets and income statements in those markets. He said

that one of the reasons NEPC focused on this area early is because it is a good diversifier and there is a yield pick up over the US fixed income market. In regard to the structure of this asset class, he said that the Investment Staff and NEPC are considering having two core EMD managers and some hedged exposure, both long and short investments, which would dampen down the risk associated with emerging market exposure.

Mr. Stracke said that NEPC in conjunction with the Investment Staff developed a list of about 45 managers in this space which were then screened. From those, a short-list of 15 managers was developed. He said that NEPC then met with all the managers on the short-list both on-site and at NEPC's office. He said that NEPC then came up with a focused placement list or their recommended list of six emerging market managers, any of which would be a good fit. He said that the Investment Staff and NEPC felt that Franklin Templeton was the most appropriate manager for this mandate given their absolute return approach, their focus on a "pure" exposure to emerging markets as defined by income levels in each country, and the greater diversification attainable through the inclusion of more countries, including "frontier" countries.

Mr. Thomas J. Dickson, Senior Vice President/Regional Director Institutional Business Development and Institutional Client Services and Ms Claire Husson, Portfolio Manager, Emerging Markets Debt Research Analyst, both from Franklin Templeton introduced themselves to the Board. Mr. Dickson referred to the presentation booklet distributed to the Board. He gave a brief overview of the Firm's investment management platforms noting that as of June 30, 2010, the total Fixed Income platform had \$234.4 billion in Assets Under Management (AUM). Of that, \$67 billion is managed in dedicated emerging market portfolios. He gave a brief description of the Firm's global office locations, the EMD Opportunities Team's capabilities and the internal resources available to the team.

Ms Husson summarized the Firm's absolute return approach, explaining that any country that is not effectively a developed economy is potentially an investable emerging market. She said the team employs top-down risk controls. They have a large opportunity set because they use hard and local currency issuers which increases their investment universe. She explained that, historically, they have found excellent opportunities in less efficient markets and they have invested in local currencies since the fund's inception so they understand the complexities of the local markets. She discussed the EMD investment process which employs bottom-up research to determine country selection, currency selection and issue selection.

Ms Roediger requested that Mr. Parham provide a brief summary of how this investments fits into the emerging markets allocation.

Mr. Parham stated that currently the portfolio has an allocation for emerging markets but that we have not deployed any assets yet. He said that we expected to deploy about \$200 million and this will be one of three to four managers. He said two other managers have already been identified and are leading contenders. With three or possibly four portfolio managers, a \$70 million dollar allocation to Franklin Templeton is an appropriate amount. He said the Staff is please with the Firm's global capabilities, the scope of their data resources and the expertise of this particular team.

Mr. Maguire asked what the expectation is for the rate of return and the performance against the benchmark.

Mr. Parham responded that the benchmark has yet to be determined but that this will be a part of Staff's remaining due diligence. He said the benchmark for fixed income today is the Lehman Barclays Aggregate.

Ms Husson responded that last year the fund had a 60% return which was a very strong rebound relative to the previous year. Going forward, she said, they believe the asset class can reasonably

reach an 8% to 10% annual return.

Mr. Martin said that, from a long term strategic standpoint, an 8% return is attractive. Moreover, if you look at U.S. equities and bonds, a portfolio like this would be reasonably uncorrelated and would be well-positioned to the extent that the portfolio uses non-dollar and local currencies and would thus benefit from what NEPC thinks is a long term erosion of the value of the dollar. He said that a portfolio like this would have diversifying benefits plus a relatively high expected return and it would be positioned in growing markets with some decided currency advantages.

Mr. Dunne asked what benchmark is used internally.

Ms Husson responded that because they have the three sub-segments of the asset class, they are benchmark agnostic. For dollar denominated sovereign bonds, they look to J.P. Morgan Bank Diversified. For local currency bond markets, they look to the J.P. Morgan Broad Diversified Index, and for emerging market credits, they believe the best proxy is the Bank of America Merrill Lynch Emerging Markets Credit Plus Index.

Chairman Tobin stated that there is a recommendation from the Investment Committee for an investment of up to \$70,000,000 in Franklin Templeton Emerging Markets Debt Opportunities Fund or appropriate feeders, blockers or parallel funds of same, subject to the completion of Staff and legal due diligence. He asked if there was any further discussion on that recommendation. Hearing none he called the question of those in favor of that motion.

<b>MOTION 8-3-10</b>	At 1:30 p.m.
<b>Motion:</b>	To approve an investment of up to \$70,000,000 in Franklin Templeton Emerging Markets Debt Opportunities Fund or appropriate feeders, blockers or parallel funds of same subject to the completion of Staff and legal due diligence.
<b>Moved by:</b>	Tim Dunne
<b>Seconded by:</b>	Lori Roediger
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- b. Presentation by the Investment Department Staff and Jefferies Asset Management, LLC representatives and discussion and possible **Action** regarding a possible investment of up to \$40,000,000 in a separate account or a commingled fund (or any appropriate feeder, blocker or parallel fund of same) employing the Jefferies Commodity Program - Diversified II strategy. .... Mr. Martin Anderson  
..... Mr. Adam De Chiara  
.. Portfolio Manager/Commodity Division & Co-Vice President, Jefferies Asset Management  
.....Mr. Michael Hammond  
..... Associate, Jefferies Asset Management

Ms. Roediger stated that the Investment Committee made a motion to recommend to the full Board an investment of up to \$40,000,000 in a separate account or in the commingled fund of the Jefferies Commodity Program - Diversified II strategy.

Mr. Anderson gave an overview of the real asset allocation and the commodities exposure that was put in place in the past. He explained that that exposure can be described as relative value in nature and able to capitalize on the rising or falling markets based on what is going on with commodities. He said the Investment Staff wants to add some directional exposure that will add beta and the potential for

alpha to outperform the index.

Mr. John Shearman, from Albourne Partners, summarized the due diligence conducted by Albourne and said that they are very comfortable with this investment opportunity and that they are pleased to be recommending this component because it really rounds out the program. He said the objective is to participate in the upside of commodities but mitigate the downside. He said that, in aggregate, this should achieve what we want with the existing alpha component and now we are adding the beta component. He said this will improve the risk adjusted return of the entire program and achieve what we are trying to achieve should we be exposed to an unexpected surge of inflation. He said they have a lot of confidence in Mr. De Chiara and the quality of his team and they think this is a very good offering with no counterparty risk involved in the execution of this strategy. It is not levered and it should solve the negative roll that you tend to have in tracking commodities.

Mr. Tobin asked that Mr. Shearman to explain what is meant by the term “negative roll.”

Mr. Shearman explained that it is the problem you get into when you are trying to maintain commodities exposure. He said many investors get commodities exposure through the futures market because you typically do not want to hold the physical commodity and if you enter into futures contracts, eventually you either have to take delivery or cancel out and roll to the next contract. Thus you are constantly moving from one futures contract to the next on a go forward basis and it is the switch from selling out of one and buying the next where there can be a positive or negative cost in managing that duration. History has shown that the majority of time there is a negative cost impact.

Mr. Adam De Chiara, Portfolio Manager, Jefferies Asset Management Commodity Division gave a brief overview of Jefferies’ experience with long-only commodity strategies. He discussed the CRB Index and the forward price curve and volatility and the Jefferies yield approach. He said that, from a risk management standpoint, the Firm has extensive practical experience trading in these markets and liquidity and risk management is a key focus of what they do. He said their targeted tracking error against the underlying benchmark is about 200 bps a year and they are looking to generate somewhere in the neighborhood of 300 to 500 bps of outperformance above the benchmark.

Mr. Tobin asked Mr. Martin if he would weigh in on this recommendation.

Mr. Martin responded that this was an Albourne recommendation but from a strategic standpoint, when you go after commodities, you want to have some that represent a pure alpha play and that is what Albourne has brought forth so far. He said you generally want some of the active guys and you normally want to have an index core. So this investment would provide an excellent core position in commodities that would give the Fund a little better than the beta in the market and would help manage the problems that you otherwise would have with drags. He said NEPC thinks that the construction of the portfolio is exactly right. He said he is impressed with the presentation but this is not a firm that NEPC is particularly familiar with.

Mr. Parham stated that from a portfolio stand point this investment is exactly what Staff wanted because when we put this in with our other commodities managers we get a superior risk adjusted return. He said Staff is confident that this is a sophisticated and talented manager that historically has shown that they do what they say they do and Staff is please to recommend them.

Chairman Tobin stated that there is before the Board is a recommendation from the Investment Committee for the investment of up to \$40,000,000 in a separate account or a commingled fund of the Jefferies Commodity Program - Diversified II strategy subject to the completion of Staff and legal due diligence. He asked if there was any further discussion on that Motion. Hearing none he called the question of those in favor of that motion.

<b>MOTION 8-3-10</b>	At 1:30 p.m.
<b>Motion:</b>	To approve the investment of up to \$40,000,000 in a separate account or a commingled fund (or any appropriate feeder, blocker or parallel fund of same) employing the Jefferies Commodity Program - Diversified II strategy subject to the completion of Staff and legal due diligence.
<b>Moved by:</b>	Tim Dunne
<b>Seconded by:</b>	Lori Roediger
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- c. Presentation by Investment Department Staff and JMI Equity representative and discussion and possible **Action** regarding an investment of up to \$40,000,000 in JMI Equity Fund VII, L.P. or appropriate feeders, blockers or parallel funds of same. .... Mr. Ryan Parham  
..... Mr. Mark Steed  
..... Senior Analyst  
..... Mr. Paul Barber  
..... Managing Director, JMI Equity

Mr. Steed gave a brief overview of JMI Equity Fund VII. He said that JMI is a growth equity fund that invests in software, internet and business services companies. He said the Firm boasts a net IRR of 42% and a realized multiple on capital of approximately 2.4x for recent funds and 3.2x across all funds. He said that Investment Staff conducted due diligence in conjunction with StepStone and found JMI to be more growth-oriented, showing an ability to add greater value through revenue enhancements compared to their peers. Staff believes this is one of the reasons JMI had the strongest cash-on-cash returns of its peer group. He stated that Staff looked at about a dozen institutional quality funds in their due diligence process and narrowed it down to a short list of four. Staff felt that JMI was the most growth oriented of the four and has shown ability to add value to the top line.

Mr. Steed stated that StepStone Partners has conducted its own due diligence on this firm and has provided a summary of their findings and recommendations in the meeting material. He noted the Jay Rose, Relationship Manager, was not able to be here to present the StepStone findings because he is getting married. He said Tom Cawkwell, Partner, Albourne Partners as had a couple of meeting with JMI and can express an opinion.

Paul Barber, General Partner, JMI Equity said they are fundamentally growth equity investors focused on software businesses. He said they have been around for 18 years and they are about to make their 99<sup>th</sup> investment. He said they have had 55 realizations during that time and have sold 4 companies this year. The average return on invested capital on those four deals was 4.4x. JMI has a high 30s IRR. He said their objective is to find companies that have not raised traditional venture capital. He said that 70% of the time, they are the first institutional capital in what he referred to as “boot strap” businesses. He said that on a selective basis they also do buy-outs and recaps of later stage companies with which JMI has had some history. He said JMI has 24 investment professionals split between Baltimore and San Diego. He discussed their sourcing and due diligence mechanism.

Mr. Cawkwell stated that Albourne supports the Trusts investment in JMI VII. He said that they track all of the firms in this space and that within he “for business software” group in the U.S., they regard JMI as the leading investment opportunity. He said JMI has consistently outperformed its industry and the industry benchmark by around 20% historically.

Mr. Parham stated that while Staff is asking for approval to invest up to \$40 million, there may be some capacity constraints and we may only be able invest up to \$25 million.

Mr. Dunne asked if the partners invest in the fund themselves.

Mr. Barber responded yes and added that the partners are over 2% of the fund.

Chairman Tobin asked if there were any questions and seeing none he stated that there is a motion before the Board by the Investment Committee to make an investment of up to \$40,000,000 in JMI Equity Fund VII, L.P. or appropriate feeders, blockers or parallel funds of same subject to the completion of Staff and legal due diligence. He asked if there were any further questions and hearing none called the question of all those in favor of the motion.

<b>MOTION 8-4-10</b>	At 1:47 p.m.
<b>Motion:</b>	To approve an investment of up to \$40,000,000 in JMI Equity Fund VII, L.P. or appropriate feeders, blockers or parallel funds of same subject to the completion of Staff and legal due diligence.
<b>Moved by:</b>	Tim Dunne
<b>Seconded by:</b>	Lori Roediger
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- d. Presentation by Investment Department Staff regarding increasing the previously approved investment (managed by Fischer Francis Trees and Watts (“FFTW”) or its subsidiaries or affiliates) in an actively managed U.S. Inflation-Linked Bonds (TIPS) strategy investment vehicle from “up to \$50,000,000” to “up to “90,000,000.” ..... Mr. Ryan Parham  
..... Mr. Martin Anderson

Ms Roediger reported that the Investment Committee approved increasing the previously approved investment (managed by Fischer Francis Trees and Watts (“FFTW”) or its subsidiaries or affiliates) in an actively managed U.S. Inflation-Linked Bonds (TIPS) strategy investment vehicle from “up to \$50,000,000” to “up to “90,000,000.”

Mr. Parham stated that the Trust is currently invested in this strategy with an approved allocation target of up to \$50,000,000 and that the Investment Staff is seeking to increase that upper limit to \$90,000,000. He said the Investment Staff likes the TIPS strategy and the additional allocation will help staff to achieve the asset allocation target. He said that there are days that we have more cash than we would like and because the strategy is very liquid and high quality and provides inflation protection, it is a safe place to park cash. He added that the TIPS strategy increases our hedge against some of the tail risk that we see in the marketplace. He said that this investment is included in the real assets category and that this incremental increase will provide more maneuverability as far as achieving the total asset allocation goals.

Chairman Tobin asked if there were any questions from the Board. Hearing none he called the question of all those in favor of the Investment Committee’s motion to approve increasing the limit on the amount that can be invested in the actively managed U.S. Inflation-Linked Bonds (TIPS) strategy investment vehicle (managed by Fischer Francis Trees and Watts (“FFTW”) or its subsidiaries or affiliates) from “up to \$50,000,000” to “up to “90,000,000.”

<b>MOTION 8-5-10</b>	At 1:55 p.m.
<b>Motion:</b>	To approve increasing the previously approved investment (managed by Fischer Francis Trees and Watts (“FFTW”) or its subsidiaries or affiliates) in an actively managed U.S. Inflation-Linked Bonds (TIPS) strategy investment vehicle from “up to \$50,000,000” to “up to “90,000,000.”
<b>Moved by:</b>	Tim Dunne
<b>Seconded by:</b>	Lori Roediger
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

- e. Presentation by Investment Department Staff and NEPC representatives and discussion and possible **Action** regarding the approval of a revision to the Appendix I *Asset Allocation Policy* of the PSPRS Amended and Restated Statement of Investment Policies adding “3-month LIBOR +3%” as the benchmark for the Global Tactical Asset Allocation (GTAA).  
..... Mr. Ryan Parham  
..... Mr. Allan Martin

Ms Roediger reported that the Investment Committee discussed and approved a revision to the Appendix I *Asset Allocation Policy* of the PSPRS Amended and Restated Statement of Investment Policies adding “3-month LIBOR +3%” as the benchmark for the Global Tactical Asset Allocation (GTAA).

Mr. Parham stated that when the new Asset Allocation was adopted which includes a GTAA category, the benchmark for GTAA was left blank, pending further discussion.

Mr. Anderson reported that, after discussion with NEPC regarding how the Staff wants to benchmark GTAA over the long term and what the Staff hopes to achieve with this asset class, the Staff and NEPC agreed to “3-month LIBOR +3%” as the benchmark. He said that typically GTAA managers benchmark themselves against a cash return like LIBOR but we are expecting outperformance which is why we selected the particular managers we have. As a result, the Staff and NEPC settled on 300 bps of desired target alpha over the cash rate.

Mr. Martin reported that they discussed and concurred with Staff that the LIBOR +3% is an appropriate benchmark for the asset class.

Chairman Tobin asked if there were any questions from the Board. Hearing none he called the question of all those in favor of the Investment Committee’s motion to approve a revision to the Appendix I *Asset Allocation Policy* of the PSPRS Amended and Restated Statement of Investment Policies adding “3-month LIBOR +3%” as the benchmark for the Global Tactical Asset Allocation (GTAA).

<b>MOTION 8-6-10</b>	At 2:00 p.m.
<b>Motion:</b>	To approve a revision to the Appendix I <i>Asset Allocation Policy</i> of the PSPRS Amended and Restated Statement of Investment Policies adding “3-month LIBOR +3%” as the benchmark for the Global Tactical Asset Allocation (GTAA).
<b>Moved by:</b>	Tim Dunne
<b>Seconded by:</b>	Lori Roediger
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

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

Mr. Selfridge provided a brief review of the month end performance. He said that July was a positive performance month and that the total fund was up 4.08%. He said that the primary factors that contributed to that return were the new asset allocation and the fact that Staff had reduced equity exposure through net sales. However, even with the sales of equities, we still were overweight in equities, given our new equity allocation target. He stated that the reports provided to the Board represent final performance numbers for the Total Fund with the exception of the NCREIF return which is published on a quarterly basis about six weeks after the quarter ends. He noted that the performance does not factor in the GTAA benchmark as that benchmark has only just been approved by the Board. But if the new GTAA benchmark were included and reflected in the Total Fund benchmark return for July, it would have added another 2 to 3 bps for the Total Fund benchmark return. He said the GTAA outperformed the proposed benchmark by about 4.5%.

Mr. Selfridge also reported that short-term investments were at 4.06% of the Fund at the end of July because the Staff was preparing for the funding of the final component of the GTAA strategy, BlueTrend, at \$100 million on August 2. He said the portfolio was slightly overweight in credit opportunities.

There was some discussion regarding tracking error relative to the benchmarks. Mr. Parham stated that we continue to move toward the new benchmark targets but we have not achieved all of them as yet. Consequently, as long as we have allocation discrepancies relative to the new benchmark target weights, we will continue to have tracking error.

- g. Report by Investment Department Staff and discussion regarding the Fiscal Year-Ended June 30, 2010, performance for the Arizona PSPRS Trust and the individual Plans comprising the Trust: Public Safety Personnel Retirement System (PSPRS), Elected Officials' Retirement Plan (EORP), and Corrections Officer Retirement Plan (CORP)...  
..... Mr. Martin Anderson

Mr. Parham reported that historically there were variations in the performance of each of the respective Plans because they were not in the trust structure and as the Plans grew one might have received more cash than another and thus was able to buy more securities. He said there remains a slight discrepancy between the Plans even after moving to the Trust structure because of one real estate asset that in the current market probably has no value. This asset was not unitized along with the other assets because the bank that held debt on the project would not allow the asset to be unitized without the payment of extraordinary fees. He said that for all intents and purposes the respective returns for each of the three plans, CORP, EORP and PSPRS is identical with some rounding error that is insignificant and immaterial.

- h. Report by NEPC representative(s) for the Fourth Fiscal Quarter (Second Calendar Quarter) Performance Update. ....Mr. Allan Martin

Mr. Martin referred to the Investment Performance Analysis prepared by NEPC and distributed to the Board as part of the meeting materials. He said the only new information in this report is that NEPC has now incorporated peer group rankings and has provided broader economic content. He said the report covers performance through June 30, a period which includes a negative second quarter. He said there was a significant recovery in July and as of yesterday the S&P 500 was up 6%. He said that the July recovery essentially offset the negative return recorded for the second quarter. He briefly reviewed the market environment and the volatility in the market. He reviewed the second quarter Plan highlights, noting that the Total Fund was up 13.9% through the end of June. That put the Fund in the

upper third of NEPC's public funds universe. He referred to the performance summary and noted that the Total Fund Composite returned a 1.8% variance over the Policy Index. He stated that historically the Fund was very much an internally managed equity and bond shop with a historic record that was not particularly impressive. He said that the diversification strategy that the Board has been pursuing has been the biggest factor contributing to the improved performance. This has combined with the value that has been added by the portfolio managers that the Board has selected

Ms. Roediger commended the Staff and consultants for getting the Fund to this point. She said that diversifying out of the domestic equity market has been a great move for us.

- i. Report by Compliance Auditor and discussion regarding investment compliance, holdings, and transactions as of July 31, 2010. .... Ms. Bridget Feeley

Ms Feeley reported that she reviewed the portfolio at the end of July and found no compliance issues.

- 5. 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, August 18, 2010 at 10:00 a.m.....Mr. Brian Tobin  
Chairman of the Operations, Governance Policy and Audit Committee

- f. Presentation, Discussion and Possible **Action** regarding compliance and internal audit.....Ms. Bridget Feeley  
Internal Audit and Compliance Officer

(This is item **f** on the agenda which was taken out of order.)

Ms. Feeley's presentation disclosed that approximately 93 retirees received 1099's that under reported taxable income. The Information Technology Department has updated the program so this will not occur again and staff is working with outside counsel to determine how best to handle the tax issue.

- a. Status report regarding the System's need for lobbying and government affairs representation and possible **Action** to retain one or more lobbying firms for that purpose.....Mr. James Hacking  
Administrator

Mr. Hacking summarized the Request for Information (RFI) process being conducted by PSPRS to address the System's lobbying and governmental affairs needs. One of the objectives of the process is to determine what kind of fees are being charged by various firms for these types of services. The RFI was sent to 11 firms directly. In addition, a notice was published in the Arizona Capitol Times for three weeks, and the RFI was placed on the PSPRS website. All responses have been reviewed by the staff and the committee members.

Mr. Hacking also said that the members of an ad hoc committee that the Board had created met on August 10, 2010 with Mr. John Kaites of Public Policy Partners (P3) and with Mr. Doug Cole and Mr. Chuck Coughlin of HighGround. These firms have been providing PSPRS with lobbying and governmental affairs services since 2008. The committee members and firm representatives had a lengthy and informative discussion. However, the as hoc committee made no recommendation upon completion of that discussion.

Mr. Tobin, who chaired the ad hoc committee, informed the Board that the committee had had a good dialogue and that P3 and HighGround had been very successful on our behalf for the last three years. Now the questions before the Board are: 1) what services do we need going forward; 2) how much are we willing to pay for those services; and 3) what items will be on our legislative agenda.

Mr. Ferguson, another member of the ad hoc committee, added that during the committee meeting a discussion was held regarding use of an in-house governmental affairs staff member. This will be explored in the future. Also, as a member of the Yuma County Board of Supervisors, he has worked with two other lobbying firms that responded to the PSPRS RFI and that if we were starting from scratch, he would probably recommend that we go in a different direction. However, since we have worked with P3 and HighGround now for three years and have had great success with them, he feels now is not the time to make a change.

Monthly fees will vary according to the complexity of the legislative agenda. PSPRS will not know the details of this agenda until the actuarial reports are received around the end of September.

<b>MOTION 8--10</b>	At 3:05 p.m.
<b>Motion:</b>	To direct Mr. Hacking to retain Public Policy Partners and HighGround on behalf of the Board under a one year contract that reflects the terms already negotiated and provides for up to two one-year extensions at the discretion of the Board.
<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

10. 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.**

Following the above agenda item **5 a**, Mr. Tobin made a Call to the Public but no one wished to speak at this time.

- b. Discussion regarding Fiscal Year 2011 proposed legislative initiatives.....  
 .....Ms. Tracey Peterson  
 Chief Operating Officer

By way of background information, Ms. Peterson indicated that this agenda item is intended for information only. No action is requested at this time. At the moment, the only legislative initiative under development consists of a variety of amendments to the statutes that govern the Plans. These amendments would be administrative in nature. She said that, according to the PSPRS Policy for Development and Implementation of a Legislative Agenda and Use of Lobbying Services, the staff is to present the legislative

agenda to the Board for feedback and approval prior to sending it to the legislature. It is the Board's decision as to whether or not to go ahead with the legislative proposals.

Mr. Lieberman, Partner, Kutak Rock, stated that a statute was passed last year that contains an ambiguity that both he and the Attorney General think is a cause for concern, since, in the absence of a clarification, this ambiguity could call into question the legality of all of our loan agreements and contracts. The statute as written, A.R.S. § 1-502, most likely was never intended to be written as such and the bill sponsor stated that he never intended to interpret the statute as enacted. The Attorney General and most state agencies do not want the statute to be so interpreted, so Mr. Lieberman suggested that PSPRS, Arizona State Retirement System, and the office of the Attorney General simply sponsor a bill to clarify this new statute and eliminate the troublesome ambiguity.

The discussion regarding possible legislative initiatives with Ms. Tracey Peterson listing the following items:

- 1) Add the ability for a member to purchase prior service in Arizona or a political subdivision of Arizona. Currently, members of the Elected Officials' Retirement Plan can buy previous public service (other than as an elected official) from another state, but not from Arizona.
  - 2) Change the return to work with the SAME employers from a 60 day break in service back to the original 12 months. This would make it consistent with Arizona State Retirement System and Corrections Officers Retirement Plan. The IRS will not provide guidance on what an acceptable break in service should be.
  - 3) Legislative changes, yet to be determined, to clarify issues with DROP.
  - 4) Provide the Board of Trustees with explicit authority to enter into employment agreements with the administrator and assistant administrators, at the Board's discretion. In addition, make any investment contracts entered into by the Board exempt from the contract provisions for the Sudan and Iran disclosures that require certification from the contracting officer that they do not have scrutinized business operations in Sudan and Iran. This certification is required for state contracts entered into for the procurement of goods or services.
  - 5) An exemption for the Public Safety Personnel Retirement System from the budget bill, HB 2003, that requires the elimination of the pay for performance (which PSPRS has never had) and mandatory furlough days through 2012.
  - 6) Clarification that the payment of retirement benefits cannot commence retroactively prior to the date of application for benefits.
  - 7) The need to reconcile the different local board reporting requirements under Title 12, the Open Meeting Law, as they relate to local board meeting minutes and those under Title 38's notification requirements to the System.
  - 8) Statutory changes as a result of the EPCRS filing with the IRS.
- c. Discussion and Appropriate **Action** regarding the format for distribution of PSPRS Board and Committee meeting materials.....Ms. Gail Nova

Administration Manager

Mr. Maguire requested that the materials distributed to the Board be made more user friendly and that all hard copy information be sent at one time. Ms. Nova stated that this will be done in the future and that along with hard copy, a CD of the meeting materials will be sent to members so that they can view the meeting materials on their computer monitors. Due to time constraints that occur when a meeting is scheduled early in the month, Board members will be notified of any meeting materials that will be coming at a later date.

- d. Review, Discussion and Appropriate **Action** regarding the July and August 2010 bills for legal services performed in June and July, 2010.....Mr. Jim Hacking

Mr. Hacking informed the Board that during the Operations, Governance Policy and Operations Committee Meeting at 10 a.m. this morning, a recommendation for approval was made.

<b>MOTION 8--10</b>	At 3:27 p.m.
<b>Motion:</b>	To approve the June and July, 2010 legal bills for payment.
<b>Moved by:</b>	Mr. Ferguson
<b>Seconded by:</b>	Mr. Tobin
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

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

Mr. Tobin stated the Local Board Training Program report had been presented to the Operations, Governance Policy and Audit Committee during their meeting today and that no action was needed.

- 6. Discussion, review and possible **Action** to approve an RFP for Legal Services document as the first step in the initiation of a formal RFP process.....Mr. Jim Hacking

The draft of this RFP was sent to the members of the Board and legal counsel. Once all comments have been received and the draft revised accordingly, a revised version would be provided to the Board members as part of the September meeting materials. Once approved by the Board, the RFP will be published and distributed for responses.

- 7. Report on the agenda and planning for the September 15 and 16, 2010 Annual Meeting of the Board of Trustees.....Mr. Brian Tobin

Following a discussion between the Board and Staff, it was determined beginning time for each of the two days of the Annual Meeting will be 9:00 a.m. The session on the first day will go until about 5:00 p.m. and the meeting will resume on second day at 9:00 a.m. until adjournment at approximately 1:00 p.m. Following the end of the first day, there will be a dinner and an invitation will be send to Mr. Michael Galloway, past Chairman of the Fund Manager (now the Board of Trustees).

A few of the items to be covered in the meeting include: 1) a report from the GRS actuaries on the results of their stochastic and deterministic projections for PSPRS and a discussion of the possible impact those results could have with respect to the System's legislative agenda for the 2011 session; 2) an IT staff presentation regarding changes that have been made during the past fiscal year; 3) a report from 3 or 4 of PSPRS' portfolio managers that will highlight their expectations for the U.S. and global economies and financial markets; and 4) elections for Chair and Vice Chair of the PSPRS Board of Trustees.

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

A discussion was held regarding the members of the Board who will be attending the preapproved National Conference on Public Employees Retirement Systems (NCPERS) meeting October 10-13, 2010. Mr. Ferguson will attend and possibly Mr. Tobin. Attending the Super Bowl of Indexing December 5 -8, 2010 meeting will be Ms. Roediger, Mr. Ferguson and Mr. Tobin.

<b>MOTION 8--10</b>	At 3:45 p.m.
<b>Motion:</b>	Any Board member who is interested may attend the Super Bowl of Indexing.
<b>Moved by:</b>	Mr. Maguire
<b>Seconded by:</b>	Mr. Ferguson
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

**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.**

9. 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, Welker, ApexCapital, Staeck, BNY Mellon, Pivotal Group, Desert Troon, Seldin, Parker, Loftus, JP Morgan Chase, Toyota, Goldman Sachs, issues related to updated IRS determination letters for PSPRS, CORP and EORP, Jacobs and Countrywide matters and Appropriate Action Regarding same.....Mr. Marc Lieberman  
Partner, Kutak Rock

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,Welker, ApexCapital, Staeck, BNY Mellon, Pivotal Group, Desert Troon, Seldin, Parker, Loftus, JP Morgan Chase, Toyota, Goldman Sachs, issues related to updated IRS determination letters for PSPRS, CORP and EORP, and Countrywide matters, pursuant to A.R.S. §§ 38-431.03(A)(2), (3), (4), and (7).

<b>MOTION 8--10</b>	At 3:50 p.m.
<b>Motion:</b>	To suspend the Open Session and enter into Executive Session for discussion about IRS determination letters.
<b>Moved by:</b>	Mr. Maguire
<b>Seconded by:</b>	Mr. Ferguson
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion Passes:</b>	Passes

The board ended the Executive Session, resumed the Open Session and directed the Board's attorney to proceed in accordance with what was discussed in Executive Session.

10. 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 were in attendance.

11. Set the Next Meeting Date

The next meeting will be September 15 and 16, 2010.

12. Adjournment

<b>MOTION 8--10</b>	At 4:13 p.m.
<b>Motion:</b>	To adjourn the meeting.
<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

The meeting was adjourned at 4:13 p.m.

\_\_\_\_\_  
**Brian Tobin, Trustee, Interim Chairman**

\_\_\_\_\_  
**Lori Roediger, Trustee, Vice Chairperson**

\_\_\_\_\_  
**Tim Dunne, Trustee**

\_\_\_\_\_  
**Greg Ferguson, Trustee**

\_\_\_\_\_  
**Alan Maguire, Trustee**

