PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
BOARD OF TRUSTEES MEETING  
January 21, 2015  

MINUTES  

Present:  
Mr. Brian Tobin, Chairman, Trustee  
Mr. Gregory Ferguson, Vice Chairman, Trustee  
Mr. Jeff McHenry, Trustee – Excused at 4:15 p.m.  
Ms. Randie Stein, Trustee  
Mr. Richard Petrenka, Trustee  
Mr. Lauren Kingry, Trustee – Excused until 3:30 p.m.  
Mr. William Davis, Trustee  

Others Present:  
Mr. Jared Smout, Deputy Administrator  
Mr. Ryan Parham, Chief Investment Officer  
Mr. Marty Anderson, Deputy Chief Investment Officer  
Ms. Ivy N. Voss, Assistant Attorney General  
Mr. Shan Chen, Lead Portfolio Manager  
Mr. Mark Steed, Lead Portfolio Manager and Chief of Staff  
Ms. Vaida Maleckaitė, Investment Operations Analyst  
Mr. Mark Lundin, Deputy Chief Investment Officer  
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock  
Mr. Allan Martin, Partner, NEPC, LLC  
Ms. Bridget Feeley, Internal Audit and Compliance Officer  
Ms. Jennifer Eichholz, In-House Investment Counsel  
Mr. Dean Adler, CEO and Co-Founder, Lubert-Adler Partners, L. P.  
Mr. Edward Schwartz, ORG Holdings, LLC  
Mr. Doug Cole, Public Policy Partners  
Ms. Dianne McAllister, Public Policy Partners  

1. Call to Order; Roll Call; Opening remarks  

The meeting was called to order by Chairman Tobin at 1:03 p.m. He offered the condolences of the Board to Mr. Lauren Kingry who lost his father at the end of December.  

2. 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.
Chairman Tobin made a Call to the Public following the end of Agenda item 5.

Mr. Jim Schweisthal, 26 years with the Mesa Police Department and part of the Retired Police Officers Association, thanked the Board for their efforts and he inquired if when you were asked to give up constitutional rights and someone asked you to give up one of your first amendment rights, what would you give up first? These protections were put in place by legislature. We want to find out the truth. Mesa is hiring 50 officers this year. We understand cities such as Bisbee are filing for bankruptcy. He added that he has another concern which is the 11% in the context of what happens when you raise the contribution rate of net income? There are concerns for the younger person of taking this percent out of their pay to contribute. Also, part of FOP Mesa Lodge 9 has some concern and we want to put out our side of the issue with the goal to see protections met that were in place when we were hired, which is the stance of the Retired Police Officers Association. They are not against anything that would help the whole group, but to have to wait 7 years for any COLA plus giving up 11% of income and wait until age 60 to receive a COLA is a lot.

Mr. Ferguson replied that it is not our plan to take away any constitutional rights. Mr. Tobin asked Mr. Schweisthal his group has an alternative plan and the response was not right now. We are in the learning phase and give us the opportunity to convey that this proposal is out there. Mr. Tobin added that we hope you understand the role the Board has to the Fund, the fiduciary duty. We took action in 2010 and SB 1609 was passed in 2011, so this has been going on for a long time. There is no magic wand for this problem. We have fiduciary duty to give direction especially with the results of the Fields case. We are trying to find a middle ground for all.

Mr. Will Buivadas of the Arizona Police Association and Phoenix Law Enforcement Association stated we are cautiously supporting the bill as written, but we think it is good enough to bring to Washington Street and sort it out there. There are some concerns, but overall support. Our System is in trouble due to the rates of cities and employers rates. Fire and police have taken less salary to make up for the employer rates. At the same time, the retirees have had increases and he is disappointed to hear retirees that not on board. If we do not do anything and our cities declare bankruptcy, the unfunded liability is treated as an unsecured creditor. Be prepared for that, because our pension will become diminished.

Mr. Javier Cota, a retired police officer, stated that some of the things he thinks will alleviate some of the financial things that have not been looked at or talked about include cost recovery. A lot of the fund was influenced by what was happening on Wall Street such as mortgage backed securities which had an impact on our System’s numbers and real estate portfolios. He said he is not aware or has heard of any effort to try and recover some of this money.

Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock said for many years we have instituted our Securities Class Action Recovery Program and we actively participate in those cases and from those cases we recover more than a million dollars per year. It is a source of recovery we should not miss and we are trying to take advantage of it.
Mr. Cota said the climate against defined benefit pension plans comes from a lot of misinformation. I think it would be good for the Board to look at putting out the positive things the System does; i.e. pensions for families that are paid for those who were killed in the line of duty and the work done for PSPRS and how it benefits retirees.

Mr. Tobin responded to Mr. Cota by saying we are in the second year of trying to have a better presence and the Operations Committee is in the process of working on the plan to do so.

Mr. Lieberman added that the PSPRS does not invest in mortgage backed security issues; therefore, we have not directly felt the effect.

Mr. John Augustyn, representing the Association of Retired Phoenix Officers and their survivors, thanked the Board for their excellent work and service for PSPRS. We cautiously support the bill. We are in concurrence with the current pension reform proposed by the United Phoenix Fire Fighters. We wish you the best in protecting the System.

Mr. Jim Mann, Executive of the Arizona FOP, Arizona Labor Counsel, stated in the article in the Capital Times last month, this Board talked about a low risk, moderate investment strategy for quite some time and that strategy may very well be a determining factor for retirees in consideration of this plan because, if your strategy for this plan of a low risk investment strategy is in the 9% target to protect the main corpus of the Fund and if nothing is done to change it, it will probably make the retirees currently be in the position of getting few, if any, PBIs in the future. This is one of the considerations we have taken in looking at that change in the investment strategy and you have to try to protect the Fund.

Mr. Ferguson said ASRS has not paid a PBI for 7 or 8 years. The NCPERS Conference every year presents discussion that the PBIs are killing our systems and we must correct it. Mr. Tobin added that we aim to hit the assumed earnings rate each year and each system is different. Mr. Mann stated right now the low risk strategy moving forward, as underfunded as it is, will really impact retirees if nothing is done right now.

Mr. Carlos Gastelum, retired Mesa Police Officer and belongs to the Retired Police Officers Association, said we, as a group, met with PSPRS directors. During that meeting there was one key point, that currently, based on a 22 year amortization of the Fund, at the current place it is now, it would be 100% funded without any major changes. If that’s the case, why must we do this reform?

A response by Mr. Tobin was that we must pay the unfunded liability, but employers bear the expense of that, which in some cases is 50% of payroll or more. We will pay off the unfunded liability in 22 years, but the cost of doing so is unsustainable for employers when they have other services they have to provide. Responding, Mr. Gastelum added that three days ago in the Tribune, it was announced that Mesa forgave $50 million to the Phoenix Gateway Airport. That’s a phenomenal amount of money and that is a lot of PBIs. For a city to forgive this type of thing to big business, what does that do for us as retirees or current fire fighters and law enforcement officers? Don’t take that away from us and the COLAs. Don’t forget there are human beings that have given their life to protect us.
Mr. Tobin added we have listened, but we need to strike a balance between all of us. It is for every city and town to set their priorities.

Discussion continued with Mr. Sean Matson, President of the Phoenix Police Sergeants and Lieutenants Association and on the FOP State Board, said he heard a lot of comments today and the current product will be a burn on everybody, cities, retirees, actives, but the ultimate goal is the health of the System. We do care about the human element and our goal is to make sure the system is in place to have the body of money necessary to manage that. It is tough that I have to wait 7 years to start collecting, but that is one of the concessions I personally am going to have to take. The primary concern is the health of the System. I don’t want another Detroit. There are some boards that can be like another Detroit and we don’t want that. We are fearful of what will happen to that bill once it gets to legislature. We are cautiously optimistic with the goal of the health of the System.

3. Appropriate Action for approval of the items on 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 member of the Board of Trustees.

d. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Randolph Bartlett.
e. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of John K. Basteen.
g. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of John B. Bryce.
h. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of Margaret J. Burton.
i. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Suzanna S. Cuneo.
k. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Robert Duber, II.
l. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Richard C. Elliot.
m. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of Donna Grimsley.
n. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of James M. Hacking.
o. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Carolyn S. Hall.


q. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of George Hoffman.

r. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Thomas Horne.

s. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Augustin M. Huerta.

t. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Yvonne Knaack.


v. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Alison B. Kolomitz.

w. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Kirby Kongable.


z. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Marie A. Lorona.


bb. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Mary Helen Maley.


dd. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Inez R. Merrill.

ee. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of George Miller.

ff. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Roslynn Miller.


ii. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of Benjamin R. Norris.


ll. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Gary Pierce.

mm. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Nellie E. Plasencio.
nn. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Andrew Ramirez.
tt. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Deborah A. Young.
yy. Acceptance of Transfer Between State Retirement Systems of David Bryant.
zz. Acceptance of Transfer Between State Retirement Systems of Timothy Stein.
aaa. Acceptance of Transfer Between State Retirement Systems of Victor Rosado.
bbb. Acceptance of Transfer Between State Retirement Systems of Zachary Scott.
ccc. Acceptance of Transfer Between State Retirement Systems of Cynthia Gordon.
ddd. Acceptance of Transfer Between State Retirement Systems of Michael Snader.
eee. Acceptance of Transfer Between State Retirement Systems of Chad Estle.
fff. Acceptance of Transfer Between State Retirement Systems of Lance Sewell.
ggg. Acceptance of Transfer Between State Retirement Systems of Joseph Dorner.
hhh. Acceptance of Transfer Between State Retirement Systems of William Pitman.
iii. Acceptance of Transfer Between State Retirement Systems of Timothy Orona.
jjj. Acceptance of Transfer Between State Retirement Systems of Fiore Liberta.
kkk. Acceptance of Transfer Between State Retirement Systems of Daniel Dougherty.
lll. Acceptance of Transfer Between State Retirement Systems of Kelly Kanavel.
mmm. Acceptance of Transfer Between State Retirement Systems of Katherine Enriquez.
nnn. Acceptance of Transfer Between State Retirement Systems of Philip Steenstra.
ooo. Acceptance of Transfer Between State Retirement Systems of Galen Davis, Jr.
ppp. Acceptance of Transfer Between State Retirement Systems of Billy Gardner.
qqq. Acceptance of Transfer Between State Retirement Systems of Paul Christensen.
rrr. Acceptance of Transfer Between State Retirement Systems of Patrick Regan.
sss. Acceptance of Transfer Between State Retirement Systems of Giovanni Cassano.
ttt. Acceptance of Transfer Between State Retirement Systems of Brett Smith.
uuu. Acceptance of Transfer Between State Retirement Systems of Harold Bullis.
vvv. Acceptance of Transfer Between State Retirement Systems of Terri Dicino.
www. Acceptance of Transfer Between State Retirement Systems of Melissa Casillas.
xxx. Acceptance of Transfer Between State Retirement Systems of John Doody.
bbbb. Acceptance of Transfer Between State Retirement Systems of Bryan S. Flanigan.
cccc. Acceptance of Transfer Between State Retirement Systems of Timothy Cordon.
dddd. Acceptance of Transfer Between State Retirement Systems of Ty Cathers.
eeee. Acceptance of Transfer Between State Retirement Systems of Jerry Brown.
ffff. Acceptance of Transfer Between State Retirement Systems of Pamela Rodriguez.
gggg. Acceptance of Transfer Between State Retirement Systems of Roger Ramella.
hhhh. Acceptance of Transfer Between State Retirement Systems of Timothy Taylor.
iiii. Acceptance of Transfer Between State Retirement Systems of Janice Kulp.
jjjj. Acceptance of Transfer Between State Retirement Systems of Deana Winn.
kkkk. Acceptance of Transfer Between State Retirement Systems of Richard Henry.
llll. Acceptance of Transfer Between State Retirement Systems of Rebecca Shackelton.
mmmm. Acceptance of Transfer Between State Retirement Systems of Seteara Haddock.
nnnn. Acceptance of Transfer Between State Retirement Systems of Mike Farber.
oooo. Acceptance of Transfer Between State Retirement Systems of Steve Campbell.

**MOTION: 4 – 1/21/15**

**Motion:** Move to approve the Consent Agenda.

**Moved by:** Mr. Ferguson

**Seconded by:** Mr. Petrenka

**Discussion:** Ms. Stein and the Board acknowledged the retirement of our former Governor for 31 years in public service.

**In Favor:** Unanimous

**Motion:** Passes – Mr. McHenry - Excused
4. Appropriate **Action** regarding the Minutes of the November 19, 2014 Meeting of the PSPRS Board of Trustees.

   **Mr. Brian P. Tobin**

<table>
<thead>
<tr>
<th>MOTION: 5 – 1/21/15</th>
<th>At 6:20 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>Move to approve the Minutes of the November 19, 2014 Meeting of the PSPRS Board of Trustees.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Petrenka</td>
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<td>Seconded by:</td>
<td>Mr. Ferguson</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes – Mr. McHenry - Excused</td>
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5. Review, discussion and possible **Action** on potential legislative proposals for the 2015 legislative session including items for a possible administrative amendments bill.

   **Mr. Jared A. Smout**

A summary of the opening session of legislature was presented by Mr. Doug Cole and Ms. Dianne McAllister of Public Policy Partners. The IRS Compliance bills went through the Senate Finance Committee today with no problems: SB 1055, the EORP retirement health benefit and retirement benefit plan; SB 1054, the CORP bill, and SB1057, the PSPRS bill regarding the removal of Police officers’ ability to purchase their handguns, and shotguns because IRS deemed it a non-DE terminal benefit. This portion of the bill will be moved to a law enforcement statute instead of a pension statute. The Senate Finance Committee reviews pension and retirement bills and the House Insurance Committee reviews retirement related bills.

Another proposed bill that is moving through legislature is a possible change regarding CORP’s non-designated positions that allows someone who has been a member of ASRS for 5 years to be able to file for their position to become a non-designated one with the Local Board of Judiciary. This bill was introduced by a few fire chiefs and it allows for only fire chiefs that the local board deems as hazardous duty that are enrolled in PSPRS and then have the ability to enter ASRS. This has not been assigned to committee.

Comments from the Board were voiced regarding the fact there are chiefs who come from another state and so they would not be in the position long enough to get a retirement from PSPRS. Chairman Brian Tobin, Deputy Chief of Phoenix Fire Department summarized that the way this is written is to prevent double dipping if the fire chief lives in Arizona, but if the fire chief comes from another state, they could double dip. Mr. Tobin’s position is a no on this bill since he is opposed to allowing this to happen, but he is not opposed to allowing them to opt out as long as the employer paid the alternate contribution rate providing this can be done without violating IRS rules.

Mr. Cole stated if the bill moves through legislature, the Board should take a position. He spoke regarding the budget aspect of PSPRS as it relates to the Board’s resolution dealing with the Fields case allowing employers to fund their contributions regarding the unpaid PBIs all at once or over three years. Governor Ducey’s budget recommended the state go ahead and pay this year in one lump sum for $28.7 million.
A working committee on pension reform will be created which will include employees and employers.

Mr. Brian Jeffries, President of the Professional Fire Fighters of Arizona, stated review of the pension reform from the viewpoint of his organization has been held as he has traveled throughout the state with changes from past plans proposed by PFF of AZ. It has been made certain that, in the future, the PBIs or COLAs will be completely distinct from the corpus of the Fund in our proposal. There is no nexus with the Fund and the COLA. The language of the bill is ready to proceed with using of the elements of SB1609. We have consulted with constitutional attorneys regarding the complexities of bringing something to fruition. We are reaching out to stakeholders by use of social media, offering people the opportunity to review what has transpired and to interlace them to proposed reforms. Broad based support has increased and we are sensitive to reactions and what affect this will have on the Fund. Most of the original proposal remains in place. We have spent a lot of time and money to find how to navigate this constitutional situation.

Changes:

- Excess earnings mechanism to the PBI needs to go away
- New PBI fund paid by current employees of 11.65%, 4% over 7.65% over the assumed earnings rate to go into the new Fund
- Three years with no one getting a PBI
- Then no one able to receive a PBI until they have been gone from the System for seven years and/or reach the age of 60 whichever comes first

This will allow the System to grow significantly, with 4% over assumed earnings rate of 7.65%. Only 25% will be available to pay out PBIs each year and only a maximum of 2%. The amount is to be determined by the actuaries. Employers will also be asked to pay a little into the Fund. This reduces taxpayers’ dollars and reduces local board monetary requirements.

This bill will be introduced once the new legislators become more familiar with processes and will probably be introduced in the next two to three weeks.

Mr. Tobin clarified that contribution rates will fluctuate with a minimum of 10% as the employer contribution rate floor. It is proposed that the employee contribution rate be 11.65% with 4% set aside for the COLA/PBI.
Mr. McHenry continued by saying if the plan is too much to endorse, he suggests three core elements that perhaps the Board could entertain as a resolution to show support to those elements. To request legislature, through a constitutional amendment, include three certain elements and to revise the COLA program to something sustainable by (1) increasing the statutory employer minimum contribution rate of 10%, (2) to increase the employee contribution rate to 11.65% and have the maintenance of effort with 4% and it goes to the underlying fund and (3) as is actuarially sound to keep a 3/2 – 1/3 split to the contribution rate (2/3 employer and 1/3 employee).

MOTION: 1-1/21/15

Motion: Move to endorse the Fire Fighters’ bill as currently written.
Moved by: Mr. Ferguson
Seconded by: Mr. McHenry

Discussion: Ms. Stein would like to see actuarial work on reported contributions. Mr. Davis stated he is intrigued by the proposal, but would like to see a draft of the bill and actuarial report before endorsing it. Mr. Ferguson asked Mr. Smout how much has been spent for the actuaries to study the proposal and the response was $65,000. Mr. Petrenka inquired how come this was spent and the response was it was spent by the prior Administrator and that we have also spent money for the legislature and the Task Force. Mr. Petrenka added that our role is to institute statutory directives. He does not see us as a policy making Board, but to assist implementation of anything legislature gives us and to put the statutory directive into effect in the best way we can. Mr. Ferguson replied he has personally been asked by Governor Brewer and the legislature what our response is to this proposal. Mr. Petrenka stated a fiduciary has to put their needs below that of their clientele. Just because the question is asked, doesn’t mean it deserves an answer. We would like to share our opinion, but as a Board, to say this is the best course of action, I have a lot of other ideas. Our fiduciary responsibility is to guard the money that is here. Mr. Smout said the actuaries are working on an update to the actuarial information; and Mr. Tobin added the changes will be dimiminishus.

In Favor: Mr. Davis, No; Mr. McHenry, Yes; Mr. Ferguson, Yes; Mr. Petrenka, No; Ms. Stein, No; Chairman, Yes.

Motion: Fails 3 to 3: Mr. Kingry - Excused

Mr. McHenry continued by saying if the plan is too much to endorse, he suggests three core elements that perhaps the Board could entertain as a resolution to show support to those elements. To request legislature, through a constitutional amendment, include three certain elements and to revise the COLA program to something sustainable by (1) increasing the statutory employer minimum contribution rate of 10%, (2) to increase the employee contribution rate to 11.65% and have the maintenance of effort with 4% and it goes to the underlying fund and (3) as is actuarially sound to keep a 3/2 – 1/3 split to the contribution rate (2/3 employer and 1/3 employee).
Motion: 2 – 1/21/15
At 3:04 p.m.
To propose a Resolution to show support to certain elements of the Fire Fighters bill. To request legislature, through a constitutional amendment, include three certain elements and to revise the COLA program to something sustainable by (1) increasing the statutory employer minimum contribution rate of 10%, (2) to increase the employee contribution rate to 11.65% and have the maintenance of effort with 4% and it goes to the underlying fund and (3) as is actuarially sound to keep a 3/2 – 1/3 split to the contribution rate (2/3 employer and 1/3 employee).

Moved by: Mr. McHenry
Seconded by: Mr. Ferguson

Discussion:
Mr. Ferguson stated a couple of things are in the statutes. Mr. Lieberman said if Hall is affirmed, the entire guts of SB1609 would be destroyed, but he suspects that from an actuarial standpoint that will not make much of a difference. Mr. Smout stated that each lawsuit has an identifiable class and outside counsel is managing that lawsuit. Discussion was held regarding sustainability of PBI as relates to the assumed earnings rate. Mr. Davis added he is considering modification of some details of the motion, but to encourage legislature to work toward a solution to this problem. Mr. Tobin responded we are being asked to weigh in and we need to do so today and to tenants to a bill that we would support. Mr. McHenry responded to not tell legislature how to do it, but to give some major tenants to this idea and to give some direction.

In Favor:
Mr. Davis, No - because he would like to revisit this next month with the actuaries and a specific draft of the bill and he supports use of PSPRS to be utilized as a resource for legislature, the governor and stakeholders; Ms. Stein, No; Mr. Ferguson, Yes, Mr. Petrenka, No; Mr. Tobin, Yes; Mr. McHenry, Yes.

Motion: Fails 3 to 3 : Mr. Kingry - Excused

Report by Mr. Lauren Kingry, Chairman of the Investment Committee, regarding agenda items 6. through 11., which were discussed at the Investment Committee meeting held today, January 21, 2015, on or after 10:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

6. Presentation and discussion by Investment Department Staff and Dean Adler, of Lubert-Adler Partners, L.P., regarding the Domestic Real Estate Market and the Investments of PSPRS in Lubert-Adler Real Estate Fund VI-B and Lubert-Adler Real Estate Fund VII.

Mr. Marty Anderson
Deputy Chief Investment Officer
Mr. Dean Adler
CEO and Co-Founder
Lubert-Adler Partners, L.P.
Mr. Adler summarized the focus of the report regarding the Domestic Real Estate Market and the Investments of PSPRS in Lubert-Adler Real Estate Fund VI-B and Lubert-Adler Real Estate Fund VII. The topics included review of preexisting real estate pieces in the PSPRS inventory, today’s real estate environment, the future and emerging opportunities. Discussion was held about the rate of return on specific investments and a general summary of the investment numbers. The key is consistence of returns of the Fund’s properties. Fund V1-B began with a $30 million investment in 2010-2012 and the initial investment has been returned an estimated 2-2.3 times your money at a 25% rate of return. Fund VII uses a lot of the same strategy, but the environment is different due to higher incomes and new supply of opportunities. Specific types of properties are retail, some limited service hospitality and multifamily dwellings. We are focusing of the effect of e-commerce on retail. The details of several co-investments were described. Discussion was held regarding how to control grocery store centers to create value for the Trust.

Mr. Adler described the economic environment in the U. S. as relatively good, but plan on rising interest rates and to recognize macro-economic changes. Looking forward, cash flow nature of rental assets is an economic cushion and focus on non-discretionary rental assets. Believe in a disciplined and specific strategy with underlying fundamentals. The future of real estate has changed due to the impact of technology, the great reset of 2008 and the emergence of a global market.

A question and answer period was held.

7. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Overview and Strategic Plan for the Real Estate portfolio.

Mr. Marty Anderson
Deputy Chief Investment Officer
Mr. Edward Schwartz
ORG Holdings, LLC

A review was given of the real estate portfolio which had, as of the end of 2014, 26 active partnerships with a current IRR of 10.05%. The legacy portfolio is down to 38% of the total portfolio. The portfolio’s performance relative to the benchmark has exceeded the benchmark and there are more distributions coming in than capital going out. Properties are diversified by region. The investment themes are value added opportunities, opportunistic distress and co-investments. Opportunities exist in Asia and Europe.

Going forward we will focus on a couple of new strategies, but mainly to renew with successful managers to assemble a portfolio.

8. Report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of October 31, 2014 and November 30, 2014; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

Ms. Vaida Maleckaite
Sr. Investment Operations Analyst
Chairman Kingry said the review of material during the Investment Committee Meeting was wonderful with no remarkable information.


Mr. Mark Lundin
Deputy Chief Investment Officer - Risk

Mr. Lundin provided a review of risk during the Investment Committee Meeting summarized Chairman Kingry.

10. Upon the request of any member of the Committee, presentation by staff and possible discussion with the members of the Committee about the following manager selection matters:

a. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to, $40 million capital commitment and an allocation of $40 million for co-investments with Comvest Partners, or its affiliates, in the Comvest Capital III, L.P., Fund, subject to final Staff and legal due diligence.

Mr. Mark Steed
Lead Portfolio Manager

b. Manager Selection Report by Investment Department Staff and possible discussion regarding an investment of up to, £25 million capital commitment and an allocation of £13 million for co-investments with Frogmore Real Estate Partners GP3, LLP, or its affiliates, in the Frogmore Real Estate Partners Fund III Fund, subject to final Staff and legal due diligence.

Mr. Marty Anderson
Deputy Chief Investment Officer

c. Manager Selection Report by Investment Department Staff and possible discussion regarding an investment of up to $70 million for direct investment with Field Street Partners, LP, or its affiliates, in the Field Street Master Fund, Ltd., Fund, subject to final Staff and legal due diligence.

Mr. Mark Lundin
Deputy Chief Investment Officer-Fixed Income

d. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to $130 million capital commitment, with an initial investment of $80 million with follow-on as needed, with Grantham, Mayo, Van Otterloo & Co., LLC, or its affiliates, in the GMO Benchmark-Free Allocation Fund, subject to final Staff and legal due diligence.

Mr. Mark Lundin
Deputy Chief Investment Officer-GTAA
e. Manager Selection Report by Investment Department Staff and possible
discussion regarding a potential investment of up to $80 million capital
commitment and an allocation of $40 million for co-investments with Brightwood
Capital Advisors, LLC, or its affiliates, in the Brightwood Capital Fund III, LP,
Fund, subject to final Staff and legal due diligence.

   Mr. Mark Steed
   Lead Portfolio Manager

The Investment Committee members were comfortable with the review held during the
committee meeting Chairman Kingry stated. There were no questions from the Board.


   Jennifer Eichholz, Esq.
   In-House Investment Counsel

   a. Frogmore Real Estate Partners III, L.P., Fund; Date Closed: 12/18/2014
   b. Trustbridge Partners V, L.P.; Date Closed 12/23/2014
   c. Field Street Master Fund; Date Closed 01/02/2015
   d. L-A Saturn Acquisitions; Co-Investment; Date Closed: 12/15/2014

Mr. Lieberman summarized that during the Investment Committee meeting Ms. Eichholz
answered questions regarding one transaction and none were problematic.

12. Report by the System’s Internal Audit and Compliance Officer and discussion regarding
investment compliance, holdings and transactions as of October 31 and November 30,
2014.

   Ms. Bridget Feeley
   Internal Audit and Compliance Officer

We are in compliance with the Asset Allocation Policy and following review of
contributions, there were no issues. Two issues in the Active Members Department are
being addressed. The implementation log was presented; and completed items will be
dropped from the list. The Compliance and Internal Audit Plan is on schedule, but IRS
letters are to be reviewed regarding implementation.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy
and Audit Committee, regarding agenda items 13. through 24., which were discussed at
the Operations, Governance Policy and Audit Committee meeting held today, January 21,
2015, on or after 11:00 a.m., and possible Action on the Committee’s recommendations
to the Board regarding same.

13. Presentation of the Month-to-Date Budget Report for FY 2015 and possible Action on
same.

   Mr. John Hendricks
   Manager of Finance and Accounting

We are forecast to be over budget by 10.73% at the end of the fiscal year. A lot of
investment’s due diligence expenses were moved forward into 2014 due to deal flow and
legal expenses will be reduced when we hire an investment paralegal.
14. Update on the progress of the Local Board Training Program and discussion and possible Action regarding the same.  

   Mr. Robert Ortega  
   Local Board Training Coordinator and Human Resources Manager  
   Mr. Don Mineer  
   Local Board Training Specialist  

This report was in the information materials for the Board.

15. Presentation of the "Requests for Local Board Rehearing" Report for the current month. 

   Mr. Jared A. Smout  
   Deputy Administrator  

There are two requests for local board rehearings.

16. Review and discussion regarding law firms' billings for legal services performed in November and December, 2014. 

   Mr. Jared A. Smout  

The legal bill was approved by the Operations, Governance Policy and Audit Committee as presented.


   Ms. Bridget Feeley  

The management review process is still being developed and will be pushed to May due to review of the IRS letter.

18. Discussion and Action regarding an amendment to the PSPRS FY 2015 Budget to provide funding for a reallocation of existing and open Lead Portfolio Manager position to an Analyst Position. 

   Mr. Jared A. Smout  

The Operations, Governance Policy and Audit Committee recommended moving forward with the reallocation process through ADOA and for reallocation approval. Once this is approved, we will then return to the Board for a vote regarding the matter. Mr. Smout stated there is a need to move into the Asian market and we want someone who speaks Mandarin and who has back office operations including due diligence experience in an international and global market.

**MOTION: 6 – 1/21/15**  
**Motion:**  
At 6:33 p.m.  
To recommend to the Board of Trustees to move forward with the reallocation process through ADOA and for reallocation approval, then return to the Board for a vote.  
Mr. Ferguson  
**Moved by:**  
As recommended by the Operations, Governance Policy and Audit Committee.  
**Seconded by:**  
None  
**Discussion:**  
In Favor:  
Unanimous  
**Motion:**  
Passes – Mr. McHenry - Excused
19. Presentation, discussion and **Action** regarding the contract between the PSPRS and the external auditors, Heinfeld, Meech & Co., P.C. for FYE 2015.

   Mr. Jared A. Smout

   **MOTION: 7 – 1/21/15**
   **Motion:** At 6:35 p.m.
   To accept the recommendation of the Operations, Governance Policy and Audit Committee to approve the contract between PSPRS and Heinfeld Meech & Co., P. C. for FYE 2015 and authorize the Chairman to sign it.
   **Moved by:** Mr. Ferguson
   **Seconded by:** As recommended by the Operations, Governance Policy and Audit Committee.
   **Discussion:** None
   **In Favor:** Unanimous
   **Motion:** Passes – Mr. McHenry - Excused

20. Presentation, discussion and possible **Action** regarding a renewal contract between the PSPRS and Avant Strategies.

   Mr. Jared A. Smout

   **MOTION: 8 – 1/21/15**
   **Motion:** At 6:40 p.m.
   To accept the recommendation of the Operations, Governance Policy and Audit Committee authorize Mr. Smout to enter into negotiations and possible contract talks, to sign contract through the end of this fiscal year at $9,000 per month. Currently, the monthly amount in our budget is for $6,000 per month. If this happens, we will come back to the Board for a budget adjustment.
   **Moved by:** Mr. Ferguson
   **Seconded by:** As recommended by the Operations, Governance Policy and Audit Committee.
   **Discussion:** Ms. Stein suggested moving that all contracts be written for a full fiscal year and to review all in March or April prior to budget season.
   **In Favor:** Unanimous
   **Motion:** Passes – Mr. McHenry - Excused

21. Presentation, discussion and possible **Action** regarding Microsoft SharePoint web application framework and platform.

   Mr. Sam Meier
   IT Operations Manager
   Mr. Alex Neff
   Systems Engineer
   Ms. Lisa Sweeting
   Knowledge|Information Manager

   No action.
22. Discussion and possible **Action** on pursuing services for website redesign.  
   *Mr. Jared A. Smout*

   No action and Avant Strategies will help identify the type of person needed for these services.

23. Discussion and possible **Action** regarding actuary work sessions.  
   *Mr. Jared Smout*

   Chairman Tobin asked Board members to contact him regarding having work sessions either together with board meetings or apart from board meetings. Topics of interest are actuarial information and asset allocation. The next time GRS might give a work session would be at a Board meeting so as to be useful.

24. Discussion and possible approval of the Letter of Transmittal for the June 30, 2014 CAFRs for PSPRS, EORP and CORP.  
   *Mr. Jared A. Smout*

   The Operations, Governance Policy and Audit Committee decided to continue work on the CAFRs, send them to the Board members individually for review and present the final letters at the February Board of Trustees meeting.

25. Discussion and possible **Action** regarding the use of legal counsel and their scope of work.  
   *Mr. Jared A. Smout*

   Ivy N. Voss, Esq.
   Assistant Attorney General

   **MOTION:** 9 – 1/21/15  At 6:46 p.m.
   Motion: To table this Agenda item until the February meeting.
   Moved by: None
   Seconded by: None
   In Favor: None
   Motion: None

26. Discussion and possible **Action** regarding the interpretation of total return as used in ARS § 38-856.  
   *Mr. Jared A. Smout*

   This Agenda item was tabled until February.

27. Discussion and possible **Action** regarding certain potential transactions and contracts relating to assets managed by Desert Troon.  
   *Mr. Ryan Parham*
   Chief Investment Officer
Mr. Kingry said he appreciates the information discussed during Executive Session and will pass it along to Mr. Parham, in confidence, the decisions made in this transaction and the Board will continue with information relative to this and to move forward with it. We appreciate the work by Mr. Parham and Staff.

28. Update, discussion and possible **Action** concerning the process to select the next System Administrator.

   **Mr. Lauren Kingry**  
   **Trustee and Administrator Selection Committee Chairman**

There is a meeting tomorrow regarding the process to select the next System Administrator.

29. Appropriate **Action** to approve the Trustees selected by the Chairman of the Board to serve as chairs, co-chairs and members on the PSPRS Committees.

   **Mr. Brian P. Tobin**

   | MOTION: 10 – 1/21/15 | At 6:48 p.m. |
   | Motion: | To approve the appointments to serve as chair, co-chairs and members on the PSPRS Committees. Mr. Kingry – Investment Committee Chair with Mr. Davis and Petrenka on the Committee. Mr. Ferguson – Operations, Governance Policy and Audit Committee Chair with Ms. Stein and Mr. McHenry on the Committee. |
   | Moved by: | Mr. Petrenka |
   | Seconded by: | Mr. Davis |
   | Discussion: | None |
   | In Favor: | Unanimous |
   | Motion: | Passes – Mr. McHenry - Excused |

30. Discussion and appropriate **Action** regarding Board of Trustee member requests to participate in training, educational and due diligence opportunities.

   **Mr. Brian P. Tobin**

   There were no requests.

31. Discussion and consultation with legal counsel and Staff and possible **Action** regarding IRS determination letter requests, proposed legislation, investment matters, ongoing, contemplated or threatened legal action involving the Trust and Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute, including matters involving, judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, active police officers Parker, Griego, Manganiello and Robles, Cross, the Pivotal Group, the Seldins, and Stroh Ranch Development and Timbervest. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4) and (7) as set forth in item 32.
The Board of Trustees may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A) (1), (2), (3), (4) and (7), as applicable, including to receive legal advice from the Board’s attorneys on any matter listed on the agenda, including:

a. Discussion and consultation with legal counsel for the purpose of receiving legal advice regarding the use of legal counsel, as authorized by A.R.S. § 38-431.03(A)(3).

b. Discussion and consultation with legal counsel for the purpose of receiving legal advice regarding potential PSPRS legislative proposals for the 2015 legislative session including items for a possible administrative amendments bill, as authorized by A.R.S. § 38-431.03(A)(3).

c. Discussion and consultation with legal counsel for the purpose of receiving legal advice regarding the process to select the next System Administrator, as authorized by A.R.S § 38-431.03(A)(3).

d. Status report from Steptoe & Johnson LLP regarding the four (4) lawsuits challenging provisions of Senate Bill 1609, which lawsuits involve judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, and police officers Parker, Griego, Manganiello and Robles, as authorized by A.R.S. § 38-431.03(A)(4).

e. Discussion and consultation with legal counsel for the purpose of receiving legal advice regarding certain potential transactions and contracts relating to assets managed by Desert Troon, as authorized by A.R.S. §§ 38-431.03(A) (3) (7).

f. Discussion with legal counsel (and possible recommendation to the Board of Trustees) regarding IRS determination letter requests and legal developments, claims and issues (including settlement discussions) involving investment-related public record requests as well as the Trust and Plans’ contracts and investments, including legal matters concerning the Trust’s custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Trust’s investment managers or joint venturers), as authorized by A.R.S. §§ 38-431.03(A) (2), (3), (4) & (7). Matters discussed may include claims or potential claims by, against or involving (or issues concerning) Stroh Ranch Development, Timbervest, the Pivotal Group, Desert Troon Companies, Judicial Watch, Crain Publications (Pensions and Investments Magazine), the Arizona Republic, and/or Millard and Scott Seldin. Discussion may also include the Trust’s negotiations regarding disposition of its joint venture real estate portfolios, as authorized by A.R.S. § 38-431.03(A)(7).
g. Discussion and consultation with legal counsel and Staff regarding internal investigations (including those arising from UNITE HERE!’s allegations concerning ORG Portfolio Management), public record requests, and ongoing or threatened legal action involving the Plans or Trust not otherwise referenced above, including claims involving employee bonuses and plan valuations, Anton Orlich, Ken Fields, Jennifer Wright, Mark Selfridge, Paul Corens, Stacy Alcott, and Michele Weigand, as well as claims raised by the survivors of deceased fire fighters John Percin, Jr., Sean Misner, and Garret Zuppiger, all as authorized by A.R.S. §§ 38-431.03(A) (2), (3) and (4).

h. Discussion with legal counsel regarding the interpretation of total return as used in ARS § 38-856, as authorized by A.R.S. § 38-431.03(A) (3).

<table>
<thead>
<tr>
<th>MOTION: 3-1/21/15</th>
<th>At 4:40 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>Move to recess Open Session and enter Executive Session.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Lauren Kingry</td>
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<tr>
<td>Seconded by:</td>
<td>Randie Stein</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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Executive Session ended at 6:17 p.m. Open Session resumed.

33. Set the next meeting date. *(Special Board of Trustees meeting currently scheduled for Thursday, January 22, 2015; and next regular monthly meeting currently scheduled for Wednesday, February 25, 2015.)*

The next meeting will be held on Wednesday, February 25, 2015.

34. Adjournment.
The meeting was adjourned at 6:48 p.m.

________________________________________
Brian P. Tobin, Chairman

________________________________________
Gregory Ferguson, Trustee,  
Vice Chairman

________________________________________
Randie A. Stein, Trustee

________________________________________
Jeff Allen McHenry, Trustee

________________________________________
Richard J. Petrenka, Trustee

________________________________________
Lauren Kingry, Trustee

________________________________________
William C. Davis, Trustee