PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
BOARD OF TRUSTEES MEETING  
February 28, 2018  

MINUTES  

Members Present:  
Mr. Brian P. Tobin, Chairman, Trustee  
Mr. William T. Buividas, Vice Chairman, Trustee  
Mr. William C. Davis, Trustee – Attended at 1:30 P.M.  
Mr. Edward J. McNeill, Trustee – Excused at 1:30 P.M.  
Mr. Harry A. Papp, Trustee  
Mr. Bryan Raines, Trustee  
Mr. Mike Scheidt, Trustee  
Mr. Dean Scheinert, Trustee  
Mr. Donald A. Smith, Jr. Trustee - Excused  

Others Present:  
Mr. Jared Smout, Administrator  
Mr. Dave DeJonge, Deputy Administrator  
Mr. Ryan Parham, Assistant Administrator and CIO  
Ms. Ivy Voss, Assistant Attorney General  
Ms. Chrystal Angotti, Senior Executive Assistant  
Mr. Mark Steed, Deputy CIO and Chief of Staff  
Mr. Kevin Chen, Portfolio Analyst  
Mr. Shan Chen, Lead Portfolio Manager - Excused  
Mr. Jefferson Weston, Investment Analyst  
Ms. Jennifer Eichholz, Chief In-House Investment Counsel  
Ms. Rose Crutcher, Investment Paralegal  
Mr. Timothy Jackson, Compliance Officer  
Ms. Patricia Shaner, Human Resources Director - Excused  
Mr. Christian Palmer, Communications Director  
Mr. Allan Martin, NEPC  
Ms. Dianne McAllister, Public Policy Partners  
Mr. Doug Cole, HighGround  
Mr. Marc Lieberman, Kutak Rock  

1. Call to Order; Pledge of Allegiance; Roll Call; Opening remarks.  

Mr. Brian P. Tobin  
Chairman  

The meeting was called to order at 12:33 P.M. by Chairman Tobin which was followed by the Pledge of Allegiance and Roll Call.  

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.  

There was no reply to the Call to the Public.  

There was no reply to a second Call to the Public at 2:29 P.M.  

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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.

c. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of John Ditsworth.
d. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Priscilla Knuckey-Ralls.
e. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Walter L. Presmyk.
f. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Viola Morgan.
g. Acceptance of Elected Officials’ Retirement Plan of termination of ordinary disability retirement benefit of John M. Quigley.
h. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Esther Quigley.
i. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Liberato A. Silva.
k. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Sarah R. Simmons.
l. Acceptance of Transfer Between State Retirement Systems of David Zehring.
m. Acceptance of Transfer Between State Retirement Systems of Thomas Johannesen.
n. Acceptance of Transfer Between State Retirement Systems of Cheryl Mendoza.
o. Acceptance of Transfer Between State Retirement Systems of Kenneth Allmon.
q. Acceptance of Transfer Between State Retirement Systems of Richard Martinez.
r. Acceptance of Transfer Between State Retirement Systems of Michael Ballard.
s. Acceptance of Transfer Between State Retirement Systems of Julia Galusky.
t. Acceptance of Transfer Between State Retirement Systems of Christopher Ballard.
u. Acceptance of Transfer Between State Retirement Systems of Todd Geisen.
v. Acceptance of Transfer Between State Retirement Systems of James Herrick.
w. Acceptance of Transfer Between State Retirement Systems of Jeff Plant.
x. Acceptance of Transfer Between State Retirement Systems of Daniel J. Quirin.
y. Acceptance of Transfer Between State Retirement Systems of Justin Beresky.
z. Acceptance of Transfer Between State Retirement Systems of Roy Towne.
aa. Acceptance of Transfer Between State Retirement Systems of John Shallue.
bb. Approval of the Minutes of the January 31, 2018 Meeting of the PSPRS Board of Trustees.

Mr. Brian P. Tobin

MOTION:1-02/28/2018
Motion: To approve the Consent Agenda as presented.
Moved by: Mr. Papp
Seconded by: Mr. McNeill
Discussion: None
In Favor: Unanimous
Motion: Passes
Report by Mr. William T. Buividas, Vice Chairman of the Investment Committee, regarding agenda items 4 through 11, which were discussed at the Investment Committee meeting held today, February 28, 2018, on or after 9:30 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.


   Mr. Owen Zhao
   Portfolio Analyst - Risk

   This agenda item was tabled until the next meeting.

5. Presentation and written report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of December 31, 2017; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

   Ms. Vaida Maleckaitė
   Director of Investment Services

   This agenda item was included in the report by NEPC in agenda item 6.

6. Presentation and discussion by NEPC representative(s) on the 2nd Fiscal Quarter (4th Calendar Quarter) investment performance and the 2017-2018 Fiscal Year investment performance for the Arizona PSPRS Trust.

   Mr. Allan Martin
   NEPC, LLC.

   The 2nd Fiscal Quarter and the 4th Calendar Quarter results are presented net of fees. Details regarding the market environment as of December 31, 2017, the outlook for the economy and key market themes were described. The 1 and 5 year results for the Trust were higher than the 7.4% assumed rate of return. The 5 year period earnings of 7.8% was lower than 8.7% the median public fund earned. It was stated that 70% of the peer groups did better than PSPRS. For low risk PSPRS has done well, but those funds that take more risk have done better in this economic environment on annualized returns.

   Risk needs to be considered relative to funded amounts and market conditions. A summary was stated regarding selection and allocation effects of asset classes.

7. Presentation and discussion by Investment Department Staff and Consultants regarding the annual Overview and Strategic Plan for the Fixed Income portfolio.

   Mr. William Thatcher, Portfolio Manager
   Mr. Shan Chen, Lead Portfolio Manager
   Mr. Allan Martin

   Fixed Income is 5% of the portfolio and is designed to be protective of assets in market downturns. It is designed to be U.S.-centric and of high quality. Details presented included rates, credit assumptions, price changes and current opportunities. The structure, performance, management, assessment and recommendations of this asset class were discussed. Changing the benchmark, various managers, fees and performance for Fixed Income were also discussed.
8. Report and discussion on Securities Lending.

Mr. Ryan Parham,
Assistant Administrator and Chief Investment Officer
Ms. Vaida Maleckaite
Mr. Dean Scheinert, Trustee
Mr. Don Smith, Trustee

Tabled until next month.


Mr. Ryan Parham
Ms. Vaida Maleckaite
Mr. Dean Scheinert
Mr. Don Smith

MOTION:3-02/28/2018
At 2:02 P.M.
Motion: To approve the recommendation of the Investment Committee to direct NEPC to complete an allocation study and multi-plan accounting for the three Plans.
Moved by: The Investment Committee
Seconded by: --
Discussion: An amendment not to exceed $75,000. This is a onetime fee.
In Favor: Unanimous
Motion: Passes


Jennifer Eichholz, Esq.
Chief In-House Investment Counsel
Ivy Voss, Esq.
Assistant Attorney General

MOTION:4-02/28/2018
At 2:05 P.M.
Motion: To approve the recommendation by the Investment Committee to accept the updates to the Governance Manual with the caveat to remove the last sentence on p. 29. All else remains the same in the red-lined version.
Moved by: The Investment Committee
Seconded by: --
Discussion: None
In Favor: Unanimous
Motion: Passes
11. Disclosure by Investment Department Staff of the following Manager Selection Matters:

A. New and Potential Investments Considered this Period:
   1. Disclosure of a potential investment of up to $30 million for purposes of direct investment and up to $15 million for co-investment purposes with **Patria - Private Equity Fund VI Feeder, L.P.**, in the Private Equity portfolio, subject to final Staff and legal due diligence.

B. Finalized and Executed Transactions During Prior Period:
   1. **Audax Senior Debt Fund**; Committed amount up to $100 million; Date Closed: November 27, 2017. This investment is allocated to PSPRS Asset class: Private Credit.
   2. **Stellus Capital Management / Stellus Credit Fund II, L.P. Fund**; Committed amount up to $75 million; Date Closed: December 20, 2017. This investment is allocated to PSPRS Asset class: Private Credit.
   3. **LightBay Investment Partners A, L.P.**; Committed amount up to $30 million for direct investment purposes, and a reserve allocation of up to $10 million for purposes of co-investment; Date Closed: December 22, 2017. This investment is allocated to PSPRS Asset class: Private Equity.
   4. **Crestline Speciality Lending Fund II, L.P.**; Committed amount up to $75 million; Date Closed: December 29, 2017. This investment is allocated to PSPRS Asset class: Private Credit.

No discussion was held.

Presentation by Mr. Mike Scheidt, Vice Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 12 through 17, which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, February 28, 2018, on or after 10:30 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

12. Review and discussion of staff operation reports.

   *Mr. Dave DeJonge*
   *Deputy Administrator*

   **a.** Operations Update Report
   **b.** Year to Date Budget Report
   **c.** Local Board & Employer Outreach Report
   **d.** Local Board Rehearing Report
   **e.** Law Firms’ Billings for Legal Services
   **f.** HR Report
   **g.** Communication Efforts Report
   **h.** Strategic Plan Report

No discussion was held.
13. Review and discussion of software development issues and corrective future plans.

Mr. John Briney
Enterprise Systems Architect

Due to pension reform, the PSPRS websites and software required change. An attempt to work parallel using contract developers paired with users slowed progress due to the fact the developers were unfamiliar with our programs and the use of both the old and new systems and languages. A stringent data cleansing procedure has been implemented as part of our new system, which has required the employers to correct data errors during submission. While this is caused some initial delays for each employer, the process is ultimately smooth. Going forward PSPRS will also be utilizing an Agile Development methodology and other best practices. Regarding running dual programs, the two databases are structured so different it could not be accomplished and our projections for disruption were very inaccurate. Mr. Smout requested an RFP be issued for workforce optimization. Chairman Tobin voiced deep disappointment that the Board had not been informed of the issues along the way and his displeasure that we have not been able to service our members and employers as they expect us to.


Mr. Timothy Jackson
Compliance Officer

No action was taken and the Compliance Program Document will be presented at a future meeting.

15. Review and discussion regarding internal audits.

Ms. Lisa Sweeting
Internal Audit Officer

The reviews from the staff were positive.


Mr. Dave DeJonge

The Board requested the Vendor Management Procedures be rewritten to include a period no longer than 5 years, that if contracts for Named Vendors are renewed after 5 years, that the contract come back to the Board and individual committees can amend the length of the contracts.

17. Review, discussion and possible Recommendations on pending and passed legislative actions and potential legislative proposals.

Mr. Jared A. Smout
Administrator

Ms. McAllister and Mr. Cole summarized and presented the status of bills of interest to PSPRS.

HB 2357- regarding 23.5% EORP employer rate being changed to an actuarially determined rate – failed in the House. Following stakeholder meetings, it passed in the Senate Finance Committee. The legislature is under Court Order to pass a bill regarding EORP employer rates.
HB 2545 and HCR 2032 - regarding EORP and CORP transfer from a PBI to a COLA with a 2% cap – is moving through the legislature.

HB 2564 - regarding court fees increasing to 6% to pay down unfunded liability debt to help all classes of employers - is moving through the legislature as S1251 the PSPRS Administration bill.

SB1262 - regarding the assumed rate of return to which the PSPRS Board of Trustees has taken an opposing position - is out of committee and details are now being worked on regarding a possible change of form.

18. 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.

19. Discussion and consultation with legal counsel and Staff and possible **Action** regarding 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. 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 20.

20. **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 and Staff regarding matters arising from public record requests or subpoenas, and ongoing or threatened legal action or claims involving the Plans or Trust not otherwise referenced above in Item 19, including but not limited to those involving the status of lawsuits challenging provisions of SB1609, as authorized by A.R.S. §§ 38-431.03(A) (2), (3).

   b. Update and discussion on personnel matters, as authorized by A.R.S § 38-431.03(A) (1).

   **MOTION:2-02/28/2018**  At 12:45 P.M.
   **Motion:**  To recess Open Session and enter Executive Session
   **Moved by:**  Mr. Scheinert
   **Seconded by:**  Mr. Scheidt
   **Discussion:**  None
   **In Favor:**  Unanimous
   **Motion:**  Passes

   The Board ended Executive Session and resumed Open Session at 1:03 P.M.
21. Possible **Action** on future meeting dates. (*Next meeting currently scheduled for Wednesday, March 28, 2018.*)

The next meeting will be held on Wednesday, March 28, 2018.

22. **Adjournment.**

The meeting was adjourned at 2:30 P.M.

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Brian P. Tobin, Trustee, Chairman

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William T. Buvidas, Trustee, Vice Chairman

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Edward J. McNeill, Trustee

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Bryan Raines, Trustee

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Dean M. Scheinert, Trustee

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William C. Davis, Trustee

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Harry A. Papp, Trustee

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Mike Scheidt, Trustee

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Donald A. Smith, Jr., Trustee