PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
BOARD OF TRUSTEES MEETING  
March 25, 2015  

MINUTES

Present:  Mr. Brian Tobin, Chairman, Trustee  
Mr. Gregory Ferguson, Vice Chairman, Trustee  
Mr. Jeff McHenry, Trustee – Excused  
Ms. Randie Stein, Trustee  
Mr. Richard Petrenka, Trustee - Excused  
Mr. Lauren Kingry, Trustee  
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 Maleckaitae, Investment Operations Analyst  
Mr. Mark Lundin, Deputy Chief Investment Officer  
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock  
Mr. Chris Hill, NEPC, LLC  
Mr. Tony Ferrara, NEPC, LLC  
Ms. Bridget Feeley, Internal Audit and Compliance Officer  
Ms. Jennifer Eichholz, In-House Investment Counsel  
Ms. Dianne McAllister, Public Policy Partners  
Mr. Will Buividas, Phoenix Law Enforcement Association

1. Call to Order; Roll Call; Opening remarks  

   Mr. Brian P. Tobin  
   Chairman

   Chairman Tobin called the meeting to order at 1:02 p.m. He offered the Board’s condolences to the Navajo Police Department for Officer Alex Kee Yazzie who was killed in the line of duty last week.

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 response to the Call to the Public.

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.

   a. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Suzanna Cuneo.
   c. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Marie Lopez-Rogers.
   e. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Daniel Ryan.
   f. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of George Schade, Jr.
   g. Acceptance of Transfer Between State Retirement Systems of Jeffery Dick.
   h. Acceptance of Transfer Between State Retirement Systems of James Caccavale.
   i. Acceptance of Transfer Between State Retirement Systems of Bethany Hicks.
   j. Acceptance of Transfer Between State Retirement Systems of Arthur F. Cook.
   k. Acceptance of Transfer Between State Retirement Systems of Patrick Foster.
   l. Acceptance of Transfer Between State Retirement Systems of Bradley Poehler.
   m. Acceptance of Transfer Between State Retirement Systems of Obed Escalante-Soto.
   n. Acceptance of Transfer Between State Retirement Systems of Cecilia Larsen.
   o. Acceptance of Transfer Between State Retirement Systems of Jason Wuestenberg.
   q. Acceptance of Transfer Between State Retirement Systems of Gregory McKay.
   r. Acceptance of Transfer Between State Retirement Systems of Robert Weigler, Jr.
   s. Acceptance of Transfer Between State Retirement Systems of Nicholas Eggert.
   t. Acceptance of Transfer Between State Retirement Systems of Robert Evans II.
   u. Acceptance of Transfer Between State Retirement Systems of Brian Draper.

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MOTION:1-3/25/15  At 1:04 p.m.
Motion:            Move to approve the Consent Agenda as presented.
Moved by:         Mr. Ferguson
Seconded by:      Mr. Davis
Discussion:       None
In Favor:         Unanimous
Motion:           Passes
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4. Appropriate Action regarding the Minutes of the February 25, 2015 Meeting; and the Minutes of the March 12, 2015 Work Study Session of the PSPRS Board of Trustees.

   Mr. Brian P. Tobin
Report by Mr. Lauren Kingry, Chairman of the Investment Committee, regarding agenda items 5. through 10., which were discussed at the Investment Committee meeting held today, March 25, 2015, on or after 10:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

5. Written report and possible discussion of monthly review of Management Fees.

Ms. Bridget Feeley
Internal Audit and Compliance Officer

As discussed earlier, Ms. Feeley will be present and if there is nothing to report that is unusual, she will not speak, but will rely on the written report.

6. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Overview and Strategic Plan for the Fixed Income and Credit Opportunities portfolios.

Mr. Mark Steed
Lead Portfolio Manager
Mr. Chris Hill
Mr. Tony Ferrara
NEPC, LLC

The report on Fixed Income and Credit Opportunities are in the same report since the driving factors are the same for both portfolios. Mr. Ferrara discussed publically traded fixed income, the credit market today, changes in financial markets, the Federal Reserve, and corporate fundamentals. Also reviewed were credit, underwriting changes, emerging market debt, European credit and corporate credit. Mr. Steed compared the fixed income portfolios of 2013 and 2014 and discussed the existing fixed income portfolio structure and performance.

Mr. Steed reviewed the proposed fixed income portfolio and the proposed creation of a new subclass called absolute return since it is so different from other allocations and in order to track it appropriately. Mr. Hill reviewed private credit which includes corporate credit, structured credit, and emerging market debt. Structure of the private credit portfolio and performance were reviewed and the net return is 10% - 12% which helps with achieving more than the assumed earnings rate. A discussion was held regarding the time horizon for returns.

MOTION:2-3/25/15
At 1:04 p.m.
Motion: Move to approve the Minutes of the February 25, 2015 Meeting and the Minutes of the March 12, 2015 Work Study Session of the PSPRS Board of Trustees.
Moved by: Mr. Davis
Seconded by: Mr. Kingry
Discussion: None
In Favor: Unanimous
Motion: Passes
Additionally a diversified portfolio in order to decrease risk versus a portfolio of only equities was discussed regarding the resulting increase of due diligence and legal fees due to the diversification. Diversification lowers risk, but it is affected by the vicissitudes of the market environment. The credit opportunities portfolio is in the top 1% as to outperformance. Chairman Tobin added PSPRS has been shielded by a lot of litigation as a result of our due diligence.

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

   Mr. Ryan Parham  
   Assistant Administrator and CIO

   a. For this period, there are no approved transactions or Manager Selection Reports by Investment Department Staff to be discussed.

      For this period, there were no reportable transactions.

   b. Written reports by Investment Department Staff as of January 31, 2015, regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust; and (ii) the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

      Ms. Vaida Maleckaite  
      Senior Investment Operations Analyst

      This was presented at the Investment Committee meeting and the written report is in the packet for the board members.

   c. Report by the System's Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of January 31, 2015.

      Ms. Bridget Feeley  
      Internal Audit and Compliance Officer

      There is nothing remarkable to report and the written report is in the packet for the members of the board.

8. Staff report and discussion regarding the selection of direct investments and investment managers.

   Mr. Mark Lundin  
   Deputy Chief Investment Officer

   The report on the nature of the manager selection process was given by Mr. Lundin. During the due diligence process an investment opportunity is compared to the universe of similar opportunities. Information acquired through networking is important which is conducted through professional organizations, continuing education through industry conferences and spontaneous solicitations (which are scrupulously reviewed). Investment consultants, with their data bases of opportunities and informed opinions, distill the information using objective quantifiers and then confer with the investment staff.
Staff analysis, formal selection process, due diligence using gathered information once the investment and investment manager have been selected then leads to the necessary legal steps, background checks on the company and to writing closing documents. The Board of Trustees is then informed of a recommendation for investment. This process takes three to six months. The process may be changed due to risks, changes in the law and the financial environment.

Also presented was a description of the educational and practical development of each of the investment staff member’s area of responsibility, best practices, changes in the financial environment and decision making.

9. Semi-annual report and discussion regarding the Trusts' securities lending program.

   Ms. Vaida Maleckaite
   Senior Investment Operations Analyst

   The securities lending program’s average lending pool of $2,293,106,870 for PSPRS with an average utilization ratio of 21.25% and average net earnings of $225,906 per month, in the last six months earned $1,355,438. The Supplemental Cancer Insurance Plan’s average lending pool of $19,342,219 with an average utilization ratio of 19.76% had average monthly net earnings of $7,407, and for the last six months net earnings were $44,443.

10. Discussion and possible ACTION to amend the consulting agreement with NEPC to include additional services.

    Mr. Ryan Parham
    Assistant Administrator & CIO

   NEPC generates quarterly investment reports for PSPRS. For many other clients NEPC has access to custodian and manager reports and we think this should be provided by PSPRS to NEPC so they can act as a second set of eyes in order to find any discrepancies. This is not incorporated into their contract and for a small incremental cost for NEPC to do this; we recommend a small increase in their contract. This additional layer of protection will increase the contract by $10,000 annually.
Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 11. through 17., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, March 25, 2015, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

11. 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 have removed investment due diligence expenses from the Administrative budget to see the effects. Doing so, we are projected to come in 0.68% under budget. Adding litigation, we are still 0.65% under budget. However, adding back in both litigation and the investment due diligence, we are projected to come in 5.54% over budget.

12. 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

   The Local Board Training team, the League of Cities and Towns and Mr. Smout continued the educational process regarding funding level, employer rates and how to apply these to the situation of the individual local board.

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

   Mr. Jared A. Smout
   Deputy Administrator
The same two requests for a local board rehearing remain from last month.

   Mr. Jared A. Smout

   The legal bill for $128,181.11 was approved by the Operations, Governance Policy and Audit Committee.

   Ms. Bridget Feeley

   A review of payroll process has been completed following the switch to the ADOA and some documentation needs to be completed. Other details need to be taken care of. The building security audit and management fee process are being worked on by the audit staff. A request for proposal for a cyber-security firm to review the IT program will be sent out.

16. Review, discussion and possible Action regarding purchasing time audit/transferring time.
   Ms. Bridget Feeley

   The factors for costs of purchasing time were updated by our auditors GRS so as to be able to use appropriate tables in order to calculate the costs of purchasing time and transferring time. The assumptions in place in June, 2014 were used as the set of factors.

17. 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

   The three PSPRS administrative bills are on the governor’s desk, the budget has passed. A question arose regarding the PTSD Study Committee, but would need to regroup next year with legislation. Mr. Buivid of the City of Phoenix Local Board and PLEA, and Arizona Police Association stated this is automatically under Workers’ Compensation if it is due to work in the line of duty. This is not intended to change local boards’ processes or requirements.

   Regarding pension reform, once a month stakeholder meetings are being held and the Fire Fighters’ Bill has been brought forth for stakeholders.

18. 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
   Jennifer Eichholz, Esq.

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

Executive Session

20. Discussion and possible Action regarding employers with no liability.  
Mr. Jared A. Smout

Executive Session

21. Update, discussion and possible Action on the System Administrator position and other personnel matters.  
Mr. Brian P. Tobin

Executive Session

22. 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 for training.

23. 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, Bank of America 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 24.

24. 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. 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).

b. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans or Trust not otherwise referenced above, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including one involving Jack Cross, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).
c. 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).

d. 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).

e. 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).

f. 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).

g. Discussion with legal counsel regarding employers with no liability, as authorized by A.R.S. § 38-431.03(A)(3).

h. Update and discussion on the System Administrator position and other personnel matters, as authorized by A.R.S § 38-431.03(A)(1).

<table>
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<tr>
<th>MOTION:4-3/25/15</th>
<th>At 3:18 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>Move to recess Open Session and enter Executive Session.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
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<tr>
<td>Seconded by:</td>
<td>Ms. 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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25. Set the next meeting date. *(Currently scheduled for Wednesday, April 22, 2015.)*

The next meeting is scheduled for Wednesday, April 22, 2015.

The meeting was adjourned at 5:21 p.m.

Brian P. Tobin, Chairman

Gregory Ferguson, Trustee,
Vice Chairman

Randie A. Stein, Trustee

Excused
Jeff Allen McHenry, Trustee

Excused
Richard J. Petrenka, Trustee

Lauren Kingry, Trustee

William C. Davis, Trustee