June 17, 2015

MINUTES

Present: Mr. Brian Tobin, Chairman, Trustee
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Jeff McHenry, Trustee – Absent - Excused
Ms. Randie Stein, Trustee – Excused at 3:45 p.m.
Mr. Richard Petrenka, Trustee
Mr. Lauren Kingry, Trustee
Mr. William Davis, Trustee – Excused until 2:40 p.m.

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 Maleckaitre, 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. Christian Palmer, Avant Strategies

The following matters were discussed, considered and decided at the meeting:

1. Call to Order; Roll Call; Opening remarks

   Chairman Tobin called the meeting to order at 1:00 p.m.

   Mr. Jared Smout announced the PSPRS results on the State Employment Engagement Survey, which for engagement was at a 16.6 ratio to one and World Class ratio is 9.0 to one.

   Chairman Tobin credited Staff for staying focused through difficult times and the Board appreciates their work.

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.

   b. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Norman J. Davis.
   c. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Philip W. Hazlett.
   d. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Lauren Justman.
   e. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Virginia Kelly.
   f. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Thomas Le Claire.
   g. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Gerald Porter.
   h. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of Julie Roth.
   i. Acceptance of Transfer Between State Retirement Systems of David Chrispen.
   j. Acceptance of Transfer Between State Retirement Systems of James Kline.
   k. Acceptance of Transfer Between State Retirement Systems of Timothy Maloney.
   l. Acceptance of Transfer Between State Retirement Systems of Carlos Rodriguez.
   m. Acceptance of Transfer Between State Retirement Systems of John Armstrong.
   n. Acceptance of Transfer Between State Retirement Systems of Danny Harrison.
   o. Acceptance of Transfer Between State Retirement Systems of Louis Szilagi.

   **MOTION:1-6/17/15**  At 1:02 p.m.  
   Motion: To approve as presented.  
   Moved by: Mr. Ferguson  
   Seconded by: Mr. Kingry  
   Discussion: None  
   In Favor: Unanimous; Mr. Davis, Mr. McHenry - Excused  
   Motion: Passes

4. **Appropriate Action** regarding the Agreement to participate in the Supplemental Defined Contribution Plan with the City of Tucson.  

   *Mr. Brian P. Tobin*
Documentation and the resolution to approve the agreement were given by the City of Tucson to join the PSPRS.

5. Appropriate Action regarding the Agreement to participate in the Supplemental Defined Contribution Plan with the City of Tolleson.

   Mr. Brian P. Tobin

We have received a signed authorization from the Human Resources Director of Tolleson.

   MOTION: 2-6/17/15
   At 1:03 p.m.
   Motion: Move to approve.
   Moved by: Mr. Ferguson
   Seconded by: Mr. Petrenka
   Discussion: None
   In Favor: Unanimous; Mr. Davis, Mr. McHenry - Excused
   Motion: Passes

6. Appropriate Action regarding the Minutes of the May 26, 2015 Work Study Session; and the Minutes of the May 27, 2015 Meeting of the PSPRS Board of Trustees.

   Mr. Brian P. Tobin

   MOTION: 3-6/17/15
   At 1:04 p.m.
   Motion: To approve participation.
   Moved by: Mr. Ferguson
   Seconded by: Ms. Stein
   Discussion: None
   In Favor: Unanimous; Mr. Davis, Mr. McHenry - Excused
   Motion: Passes

Report by Mr. Lauren Kingry, Chairman of the Investment Committee, regarding agenda items 7. through 13., which were discussed at the Investment Committee meeting held today, June 17, 2015, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

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

   Ms. Bridget Feeley
   Internal Audit and Compliance Officer

   Ms. Feeley stated that all fees were accurately calculated.
8. Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of April 30, 2015.

Ms. Bridget Feeley
Internal Audit and Compliance Officer

Ms. Feeley said that all investment compliance, holdings and transactions are in compliance. Investment Committee Chairman Mr. Kingry said the Investment Committee requested that statements regarding investment compliance be identified as to who had done the audit as opposed to “we reviewed”. Chairman Tobin stated he had no objection to this request.

9. Disclosure by Staff of the following manager selection matters:

a. Disclosure of a potential direct investment of up to $40 million and a reserve allocation of up to $20 million for co-investment purposes in Sterling Group Partners IV, L.P., subject to final Staff and legal due diligence.

b. Disclosure of a potential direct investment of up to $90 million in the StepStone AZ China and Asia Opportunity Fund, subject to final Staff and legal due diligence.

The Investment Committee had a general discussion this morning and the committee did not see anything extraordinary in those matters.


a. Stepstone AZ China and Asia Opportunities Fund; Dated Closed: May 26, 2015;
Jennifer Eichholz, Esq.
In-House Investment Counsel

No further discussion was held.

11. Report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of April 30, 2015; 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

Since it was decided that quarterly oral reports would be more productive, the next report is due in August. The written report was in the information presented to the Board. We had a brief satisfactory discussion this morning regarding the written report.

12. Discussion and possible Action regarding proposed changes to Asset Allocation by Staff and representatives of NEPC.

Mr. Ryan Parham
Assistant Administrator and CIO
Mr. Allan Martin, Partner
NEPC, LLC
Mr. Parham reminded the Board that asset allocation is reviewed at least on an annual basis with input from staff and NEPC, the Board’s fiduciary general consultant. This year’s asset allocation study results suggest three small adjustments. A 1% increase in Absolute Return, a 1% reduction in Real Estate and a 1% reduction in Small Cap Equites to be balanced by a 1% increase in Large Cap Equities. Mr. Parham stated the goal is to achieve 7.85% assumed earnings rate with efficiency with a minimal amount of risk.

Mr. Martin explained that each year NEPC reviews 5, 7, and 30 year returns and applies them to PSPRS’ portfolio to evaluate it with PSPRS’ current goals and risk tolerances. We met with staff and all of us support these recommendations because the existing portfolio is consistent and appropriate with the financial environment. The result will have almost no effect, but with a lowering of risk and a modest reduction in expected return. For the 30 year period the expected return is 8.26% with a 57% chance of doing better than this assumed earnings rate over time. If approved, the actuary will take the new target and research this to construct an expected return distribution for risk and then make recommendation(s) regarding a new assumed earnings rate.

Multiple tools were used to determine changes to develop a slightly more conservative portfolio than the current one. The recommendations, to be effective July 1, 2015, are on page 14 of the NEPC report.

**MOTION:5-6/17/15**

**Motion:** At 1:27 p.m.
To approve the recommendation from the Investment Committee including the targets, ranges and benchmarks.

**Moved by:** Mr. Kingry

**Seconded by:** As recommended by the Investment Committee

**Discussion:** None

**In Favor:** Unanimous; Mr. Davis, Mr. McHenry - Excused

Motion: Passes

13. Discussion with staff and legal counsel and possible Action to approve, disapprove, suggest modifications to, and to adopt the Investment Committee’s recommendation of Resolution No. 2015-01 regarding participation in securities class actions and other lawsuits.

Jennifer Eichholz, Esq.

In order to claim the settlement(s) due us in some lawsuits, said Ms. Voss, we need a resolution signed by the Board. This is a way to proceed without liabilities.

Mr. Parham summarized the history and background of the proposed resolution. In Europe it is required that one or more of the members of the Trust or governing board sign documents. Our legal experts will verify, prior to signing, that there is no liability to the individual person who is signing, to the Board or to the PSPRS. In Europe a public agency is treated more like a corporation.
Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 14. through 22., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, June 17, 2015, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

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

   Mr. John Hendricks
   Manager of Finance and Accounting

   The FY 2015 budget is projected to be .59% over without litigation and due diligence. Adding litigation and due diligence back into the budget, we are projected to be 8.12% over budget.

15. 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 written.

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

   Mr. Jared A. Smout
   Deputy Administrator

   Two requests have been settled and one is pending.

17. Review and discussion regarding law firms' billings for legal services performed in May, 2015.

   Mr. Jared A. Smout

   One firm billed for the entire year, but it was clarified that their billings would become monthly.

   The Operations, Governance Policy and Audit Committee approved paying $193,991.21 for law firms' billings for legal services performed in May, 2015.

   Ms. Bridget Feeley  
   *Internal Audit and Compliance Officer*

   The report included that review of building security has been completed, the list of Board of Trustees responsibilities has been completed with the exception of an actuarial audit which was due in 2014, but because of timing due to the pending Hall court cases, the actuary is comfortable with waiting until the Hall case is decided. Certain policies are due to be reviewed in 2015 and discussion was held about processes and policies to be developed.

19. **Written update on external communications efforts.**  

   Mr. Christian Palmer  
   *Avant Strategies*

   Written report was in the Board’s information.

20. **Presentation, discussion and possible Action** regarding the renewal of fiscal 2015-16 contracts for various services.  

   Mr. Jared A. Smout

   The five contracts that need action to be approved are already in the FY 2016 budget. This list includes Avant Strategies, public relations; Gabriel Roeder Smith & Company, actuary; Heinfeld Meech & Co., accountants; the Attorney General, in-house legal counsel; and Charles Whetstone, tax attorney.

   **MOTION: 7-6/17/15**  
   **Motion:** At 1:56 p.m.  
   To approve the recommendation of the Operations, Governance Policy and Audit Committee to renew fiscal 2015-16 contracts for various services.  
   **Moved by:** Mr. Ferguson  
   **Seconded by:** As recommended by the Operations, Governance Policy and Audit Committee  
   **Discussion:** Mr. Kingry asked, did we sign a conflict of interest? If there is a conflict the Board of Trustees must announce this. Investment conflicts of interest extend to any contract. You are on your honor. Ms. Stein asked if a relative works for a law firm associated with one of the five contracts, what is to be done.  
   **In Favor:** Unanimous; Mr. Davis, Mr. McHenry - Excused  
   **Motion:** Passes;

21. **Consideration of, and possible Action** on, the FY 2016 PSPRS Administrative Budget.  

   Mr. Jared A. Smout

   A comparison between the proposed FY 2016 budget to the FY 2015’s budget was made by Mr. Smout. Both an increase and a decrease in the personnel budget was explained as were reductions in the ADOA fees. The investment staff travel expenses are increased as was GRS’ contract by $35,000 plus an additional $40,000 for actuarial studies requests which cannot be anticipated. Discussion was held during the
Operations, Governance Policy and Audit Committee meeting about the increased expenses for actuarial studies for constituents, legislature or employers wanting same.

Mr. Ferguson suggested that once a study is requested to let them know it is not free and there is a cost. He asked for opinion of the board members since a lot of expense has occurred regarding SB1609 and it has been very expensive. Mr. Smout stated he reviews actuarial study requests to make sure of the merit of the request. Mr. Tobin understands the fiduciary duty to keep costs down, but the legislature’s requests merit proceeding with caution so as to not create enemies. Mr. Petrenka added the problem is that it is retirees’ money. Ms. Voss stated there is concern about the violation of the constitutional gift clause and one cannot make a gift of services, funds and assets unless it does not benefit constituents and the agency. Mr. Ferguson said, it at least sends a letter to them so they are aware of the cost. Ms. Voss replied to at least have them authorize us to spend it and to fulfill their request. A concern was voiced by Mr. Tobin regarding those who can afford a study versus those who cannot afford it since these tips the balance of fairness. Mr. Smout responded it is balanced now and the concern is keeping it. Ms. Stein’s concern is that will the money spent be efficient use of it.

Mr. Smout continued with the budget discussion with the bulk of the increase being bank fees since the discount of bank fees has expired and an increase resulting from due diligence costs in real estate. The amount is $230,000. Discussion was held about the contracts with banks. Also, NEPC’s contract increase is $10,000. Litigation was taken out of the Administrative Budget, but it will be monitored.

The committee recommended to further amend the budget under Administration by $77,000 for a new position but not to fill it for an executive assistant in the event it is approved by ADOA. Mr. Ferguson stated the Operations, Governance Policy and Audit Committee recommends the Board approve the budget in the amount of $10,683,587.

A question was asked as to why in seven years only one year was under budget? Ms. Stein replied that the budget is unpredictable due to litigation fees. Mr. Parham added that the money spent fluctuates depending on market opportunities and due diligence costs. Now we have started to charge these to the transaction as an expense which is better than charging it to the investment budget. Ms. Stein stated now this is a true operating budget. Mr. Ferguson suggested using a contingency fund. Mr. Tobin stated we have taken a lot of measure to reduce costs.

Contracts for StepStone, Albourne America were discussed as were appraisal fees for real estate properties.

<table>
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<tr>
<th>MOTION: 8-6/17/15</th>
<th>At 2:27 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To approve the budget as amended.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
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<tr>
<td>Seconded by:</td>
<td>As recommended by the Operations, Governance Policy and Audit Committee</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous; Mr. Davis, Mr. McHenry - Excused</td>
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<tr>
<td>Motion:</td>
<td>Passes</td>
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22. Discussion and possible Action to apply the new assumed earnings rate of 7.5% to the June 30, 2015 actuarial valuations

  Mr. Jared A. Smout

Mr. Smout discussed this topic to make sure all Board members were on the same page. The Assumed Earning Rate begins July 1, 2015 for DROP at 7.5% interest. This rate applies the following year on June 30, 2016 for valuation which will affect employer rates July 1, 2017.

23. 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.

In Executive Session

24. Discussion and possible Action regarding the interpretation of total return as used in ARS § 38-856.

  Mr. Jared A. Smout

In Executive Session

25. Update, discussion and possible Action on the System Administrator position and other personnel matters.

  Mr. Brian P. Tobin

In Executive Session

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

  Mr. Brian P. Tobin

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<tr>
<th>MOTION:9-6/17/15</th>
<th>At 2:39 p.m.</th>
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<tr>
<td>Motion:</td>
<td>To approve attendance at the Audit Compliance Conference.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. Petrenka</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous; Mr. Davis, Mr. McHenry - Excused</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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27. 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, 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 28.

28. **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) and (4), 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 24, including but not limited to, those involving Anton Orlich, Andrew Carriker, Ken Fields, Mark Selfridge, Paul Corens, the Seldins and the status of lawsuits challenging provisions of S. B. 1609, as authorized by A.R.S. §§ 38-431.03(A) (2), (3).

   b. 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).

   c. 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).

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

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<tr>
<th>MOTION:10-6/17/15</th>
<th>At 2:40 p.m.</th>
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<tr>
<td>Motion:</td>
<td>To recess Open Session and enter Executive Session regarding Agenda items 28. a, b, c, and d.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Petrenka</td>
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<td>Seconded by:</td>
<td>Mr. Kingry</td>
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<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous; Mr. McHenry - Excused</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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Public Session was resumed at 3:45 p.m.

Agenda Item 23 was tabled for another meeting.

Agenda Item 24 was tabled for future staff work.

Agenda item 25 regarding our applicant, to whom PSPRS made an offer, did not obtain a work visa by June 15 and the offer was withdrawn. The Administrator Selection Committee is being reinstated with Mr. Kingry as Chairman.

29. **Schedule future meeting date(s). (Next meeting: Wednesday, August 26, 2015.)**

The next meeting will be held on Wednesday, August 26, 2015.

30. **Adjournment.**
The meeting was adjourned at 3:49 p.m.

___________________________________________
Brian P. Tobin, Chairman

___________________________________________  ____________________________________________
Gregory Ferguson, Trustee, Vice Chairman      Randie A. Stein, Trustee

___________________________________________  ____________________________________________
Excused                                     Richard J. Petrenka, Trustee
                                            Jeff Allen McHenry, Trustee

___________________________________________  ____________________________________________
Lauren Kingry, Trustee                      William C. Davis, Trustee