PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES
SPECIAL STUDY SESSION

JUNE 28, 2017

MINUTES

Present:  Mr. Brian P. Tobin, Chairman, Trustee
         Mr. William T. Buivid, Vice Chairman, Trustee
         Mr. William C. Davis, Trustee
         Mr. Edward J. McNeill, Trustee
         Mr. Bryan Raines, Trustee - Excused
         Mr. Mike Scheidt, Trustee – Arrived at 10:31 A.M.
         Mr. Dean M. Scheinert, Trustee
         Mr. Donald A. Smith, Jr., Trustee - Excused

Others Present:

         Mr. Jared Smout, Administrator
         Mr. Ryan Parham, Chief Investment Officer
         Mr. Mark Steed, Deputy Chief Investment Officer
         Mr. Shan Chen, Lead Portfolio Manager
         Mr. William Thatcher, Lead Portfolio Manager
         Ms. Vaida Maleckaite, Director Investment Services
         Mr. Jefferson Weston, Investment Analyst
         Mr. Owen Zhao, Portfolio Analyst-Risk
         Mr. Kevin Chen, Investment Analyst
         Ms. Rose Crutcher, Investment Paralegal
         Mr. Paul Hemmes, Information Technology
         Mr. Christian Palmer, Communications Director
         Mr. Allan Martin, NEPC, LLC.

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

   Chairman Tobin called the meeting to order at 10:28 A.M., took the roll and the Pledge of Allegiance was recited.

2. Presentation and discussion by NEPC representatives and Staff on Asset Allocation for the Arizona PSPRS Trust Portfolio.

   Mr. Ryan Parham
   Assistant Administrator and Chief Investment Officer
   Mr. Mark Steed
   Deputy Chief Investment Officer and Chief of Staff
   Mr. Allan Martin
   NEPC, LLC.

The Study session was held to provide Staff direction regarding asset selection, targets and ranges. The goal of earlier boards was to structure the asset allocation in order to dampen risk and volatility as a result of the down markets of 2008-09. Current returns have been achieved with low risk and volatility in order to preserve capital in down markets. The Board has asked to slightly adjust risk in order to increase returns. Mr. Martin of NEPC is the general financial consultant and is the Board's fiduciary. The challenge now is to increase returns, how to do it and earn 7.4%. A review was held of the 5 – 7 year returns for the asset classes. The Board can choose in what to invest with higher expected returns, keeping volatility down while considering fee expenses, liquidity risk and volatility.
Discussion was held regarding the establishment of a different asset allocation for EORP, due to the high contributions required to meet their liabilities if there is not a legislative fix. The pro rata share of EORP’s value for the Trust will continue to decline. Excess contributions must be used to pay out the PBI and credit to contributors will have to be paid out, therefore PSPRS will not receive those contributions this year.

The current and future stock market prices were discussed as well as future economic growth and possible strategies. NEPC ran alternative mixes of which assets to increase, what assets to reduce and what assets to combine. The psychology of investors, indexation and a mix of active and passive managers were discussed, as well as the strategy PSPRS currently uses or to take an alternate path. Other topics included the correlation of investments, persistence of investments, market opportunity, interest rates and lower/higher risk strategies. Mr. Parham asked the Board to consider adding appropriate levels of risk with the hope to capture larger returns. PSPRS has earned over 12% return this FY 2017 and PSPRS is in the top 1% - 3% of peers on risk adjusted returns.

Alternative mixes of asset classes were run by NEPC and discussed changing the Private Equity portfolio to 11% - 12%, Private Credit to 15% - 16%, and Real Assets to 6% - 9%, which perhaps will have a slightly larger expected return and a slightly higher risk per unit of return. GTAA and Absolute Return asset classes are proposed to be combined and renamed Global Trading Strategies and to be reduced from 15% to 12% of the portfolio. NEPC stated that PSPRS has done better with active managers than passive investments/index investments.

Alternatives to a 60/40 portfolio and the influence of equities were discussed, a review of the portfolio in terms of risk was held, a summary of what happens in difference economic environments was reviewed. Additionally, liquidity and asset liability were topics of conversation. Mr. Parham suggested doing an asset liability study next year. Discussion regarding several policy targets and range changes was held. Discussion was held regarding the fact that the best strategy will not always have the best income, but it does not mean the strategy is wrong. Several new policy targets and ranges were slightly changed, but with the benchmarks remaining the same. Our asset allocation looks more like an endowment and we are different from our peers stated Mr. Parham.

Mr. Parham discussed balancing of assets due to the targets. The ranges are wide enough to provide flexibility. Chairman Tobin posed a question for thought asking if the members of the Board are satisfied with our strategy or interested in modifying it. The proposed strategy is to add more risk in order to achieve upside gain. Mr. Martin discussed private markets versus stocks for a more sustainable outcome.

3. The Board of Trustees may discuss future dates for meetings and direct Staff to place matters on future agendas (next regularly scheduled meeting June 28, 2017 at 1:00 p.m.).

Mr. Parham suggested placing on a future agenda a topic regarding cash flow since, due to the Hall case, the System is more cash flow negative than in prior years.

It was suggested that the Board annually consider any possible legislation regarding EORP.

Mr. Martin suggested conducting an asset liability study next year.
4. Call to the Public:

This is the time for the public to comment. Members of the Board may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01 (H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.

There was no response to the Call to the Public.

5. Adjournment

The meeting was adjourned at 12:08 P.M. 

/s/

Brian P. Tobin, Trustee, Chairman

/s/

William T. Buivid, Trustee, Vice Chairman

/s/

Edward J. McNeill, Trustee

/s/

Mike Scheidt, Trustee

/s/

EXCUSED

Bryan Raines, Trustee

/s/

William C. Davis, Trustee

/s/

EXCUSED

Dean M. Scheinert, Trustee

EXCUSED

Donald A. Smith, Jr., Trustee