MINUTES

Present: Mr. Brian Tobin, Chairman, Trustee
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee
Mr. Richard Petrenka, Trustee
Mr. William Davis, Trustee - Excused

Others Present: Mr. Jared Smout, Administrator
Mr. Ryan Parham, Chief Investment Officer
Ms. Ivy N. Voss, Esq., Assistant Attorney General
Ms. Jennifer Eichholz, Esq., In-House Investment Counsel
Mr. Mark Steed, Deputy CIO and Chief of Staff
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Shan Chen, Lead Portfolio Manager
Ms. Vaida Malekaite, Director Investment Services
Mr. Owen Zhao, Portfolio Analyst
Mr. Jefferson Weston, Investment Analyst
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Ms. Rose Crutcher, Investment Paralegal
Mr. Paul Hemmes, Information Technology
Mr. Christian Palmer, Communications Director
Mr. Allan Martin, NEPC LLC
Ms. Dianne McAllister, Public Policy Partners
Mr. Jim Keeler, Nationwide

1. Call to Order; Roll Call; Opening remarks.

The meeting was called to order at 1:00 p.m. by Chairman Tobin.

Mr. Brian P. Tobin
Chairman

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 Jay Lee Davis.
   e. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of John C. Gemmill.
   g. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Mary S. Hays.
   h. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Crane McClennen.
   j. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Ellen Regan.
   k. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Linda O’Dell.
   l. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Doris L. Senini.
   m. Acceptance of Elected Officials’ Retirement Plan of termination of early retirement benefit of Stephen F. Sherrick.
   o. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Patricia Wilder.
   q. Acceptance of Transfer Between State Retirement Systems of William Prather, Jr.
   r. Acceptance of Transfer Between State Retirement Systems of Joseph Lapre.
   s. Acceptance of Transfer Between State Retirement Systems of Michael Barnes.
   t. Acceptance of Transfer Between State Retirement Systems of Scott Somers.
   u. Acceptance of Transfer Between State Retirement Systems of Shane Arrollado.
   v. Acceptance of Transfer Between State Retirement Systems of Scott Klay.
   w. Acceptance of Transfer Between State Retirement Systems of Scott Wheat.
   x. Acceptance of Transfer Between State Retirement Systems of Lisa Bleich.
   y. Acceptance of Transfer Between State Retirement Systems of Peter Robeson.
   z. Acceptance of Transfer Between State Retirement Systems of Kenneth Perry.
   aa. Acceptance of Transfer Between State Retirement Systems of Valerie Millis.
   bb. Acceptance of Transfer Between State Retirement Systems of William Onyett.
   cc. Acceptance of Transfer Between State Retirement Systems of Raymond Sanchez.
   dd. Acceptance of Transfer Between State Retirement Systems of Peter Salazar.
   ee. Acceptance of Transfer Between State Retirement Systems of David Brock.
   ff. Acceptance of Transfer Between State Retirement Systems of Stacie Seitz.
   gg. Acceptance of Transfer Between State Retirement Systems of Matthew Simon.
   hh. Acceptance of Transfer Between State Retirement Systems of Matthew Decourval.
   ii. Acceptance of Transfer Between State Retirement Systems of Renae G. Hoffman.
   jj. Acceptance of Transfer Between State Retirement Systems of Todd Warren.
   kk. Approval of the Minutes of the June 29, 2016 Meeting of the PSPRS Board of Trustees.
4. **Appropriate Action** regarding the approval of the Mountain Vista Fire District Applications for Membership Waiver of participation.

   **Mr. Brian P. Tobin**

Chairman Tobin stated that, in June, the Board of Trustees approved the Joinder Agreement with Mountain Vista Fire District. Now under discussion are the Applications for Membership Waiver of Participation. Meetings have been held with the members and spouses and, since they fully understand the waivers, the potential members and their spouses have signed them. Next year, this will not be necessary because in Tier 3, a choice between the DB and DC plans will be available. Mr. Ferguson stated that he believed waiver was not a good idea, due to the age of the stakeholders, but he will support the wishes of the Board. Mr. McHenry questioned what would occur if someone was injured on the job, but they do have some other type of disability insurance available.

5. **Appropriate Action** regarding the Joinder Agreement with the Beaver Dam/Littlefield Fire District.

   **Mr. Brian P. Tobin**

   **MOTION:2-8/24/16**
   
   At 1:01 p.m.
   
   Motion: To approve the Mountain Vista Fire District applications for waiver of participation.
   
   Moved by: Mr. Stein
   
   Seconded by: Mr. Petrenka
   
   Discussion: None
   
   In Favor: Unanimous
   
   Motion: Passes Mr. Davis – Excused; one vacant Board position


   **Mr. Jim Keeler**
   
   Program Director
   
   *Nationwide Retirement Solutions*

   The value for the PSPRS Supplemental Plan as of June 30, 2016 was $13 million and as of the same date, the total balance of the EODCRS 401(a) Plan was $1.1 million, with 96 newly elected officials.
Report by Mr. Richard Petrenka, Chairman of the Investment Committee, regarding agenda items 7. through 13. which were discussed at the Investment Committee meeting held today, August 24, 2016, 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

Written report provided by Internal Audit and Compliance Officer. No discussion was held.

8. Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions, as of May 31, 2016 and June 30, 2016.

Ms. Bridget Feeley

Written report provided by Internal Audit and Compliance Officer. No discussion was held.

9. Presentation and report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of May 31, 2016 and June 30, 2016; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

Ms. Vaida Maleckaite
Director of Investment Services

For June, the Trust was up, gross of fees, 0.21% as compared to the benchmark, which was up 1.8%. For the Fiscal Year-to-Date, the value of the Trust increased 1.06% and the benchmark increased by 1.98%. The positive contributors in the portfolio were Absolute Return, Risk Parity, and Real Assets. Negative contributors were Fixed Income, Private Equity, and Real Estate. The net asset value of the Trust is $8.3 billion. Annualized return for the three year performance is 6.23%, versus 6.03% for the benchmark; the five year performance was 5.90%, versus 6.19 for the benchmark; and ten year was 4.83%, versus 4.28% for the benchmark.

The June 30, 2016 return for the Cancer Insurance Program was 1.95%, which was the same as the benchmark. For the Fiscal Year-to-Date, the return was 1.79%, versus 1.82% for the benchmark. The three year return was 6.24%, versus 4.66%; the five year return was 5.49%, versus 4.68% and the ten year return was 5.69%, versus 4.55%. The net asset value is $23 million.

10. Presentation and report by Investment Department Staff regarding Portfolio Risk as of May 31, 2016 and June 30, 2016.

Mr. Owen Zhao
Portfolio Analyst - Risk

A description of the current market conditions, a comparison of volatility, value at risk in relation to historical levels, and risk contributors of all asset classes to the total performance was presented. The PSPRS Global Trust is approximately 66% less volatile than the public stock market. Value at risk remains stable compared to last month and Brexit has appeared to have had a minimum impact on the Trust Portfolio. The Trust is in the top decile in terms of risk since 2009 and in the top quartile in terms of efficiency since 2010. Discussion was held regarding possible other types of reporting of financial results.

11. Presentation and discussion by NEPC representatives on the Fourth Fiscal Quarter (Second Calendar Quarter) investment performance and the 2015/2016 Fiscal Year investment performance for the Arizona PSPRS Trust.

Mr. Allan Martin
NEPC, LLC.
The period ended June 30, 2016 was difficult for all public funds, with the median average return of .30 basis points, so the PSPRS return of 1.1% was in the top one third of public plans. This was the second year that funds generated returns significantly lower that their assumed rate of return. Mr. Martin stated that he believes that the Trust’s portfolio is well positioned in a market that is not performing well. Interest rates are the lowest ever seen in the US and it is also true in every country around the world. Discussion was held regarding the economic environment and how to proceed with diversification while controlling volatility and risk. Additionally discussed was the Trust’s assumed rate of return and the process for determination by the actuary, including the relationship to contribution rates and asset allocation within this economic environment.

The current asset allocations are close to Board-approved targets and all are within Board-approved range. PSPRS Trust has lower volatility than the median public fund. Discussion regarding manager performance and how to achieve more value was held.

12. 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 $60 million direct and a reserve allocation of up to $20 million for purposes of co-investment with Panda Power Annex Fund, in the PSPRS Real Assets portfolio, subject to final Staff and legal due diligence.
      2. Disclosure of a potential investment of up to $20 million for purposes of co-investment with Charlesbank Fund VIII in the CB Ignite Holdings, LLC Fund, in the PSPRS Private Equity portfolio, subject to final Staff and legal due diligence.
   B. Disclosure of terminated transactions for this period:
      1. None.
   C. Disclosure of closed transactions for this period:
      1. Rockbridge Hospitality Fund VII LP Fund; Committed amount up to $50 million direct and up to $20 million for purposes of co-investment. Date Closed: June 29, 2016; this investment is allocated to PSPRS Asset Class Real Estate.
      2. Panda Power Annex Fund; Committed amount up to $60 million direct and up to $20 million for purposes of co-investment. Date Closed: August 5, 2016; this investment is allocated to PSPRS Asset Class Real Assets.
      3. CB Ignite Holdings, LLC Fund (Charlesbank Fund VIII Co-Investment); committed amount up to $20 million for purposes of co-investment. Date Closed: August 12, 2016; this investment is allocated to the PSPRS Private Equity portfolio.
   D. Current investments considered for de-selection this period:
      1. Eagle Small Cap Growth Fund. Staff recommends full redemption of all investments. Estimated Redemption completion date: July 31, 2016. This Fund is allocated to the PSPRS US Equity Portfolio.
      2. Fischer Francis Trees and Watts US TIPS with FX Alpha Overlay Fund. Staff recommends full redemption of all investments. Estimated Redemption completion date: June 30, 2016. This Fund is allocated to the PSPRS Risk Parity Portfolio.
      3. Capital Guardian Emerging Markets Fixed Income Fund. Staff recommends full redemption of all investments. Estimated Redemption completion date: June 30, 2016. This Fund is allocated to the PSPRS Fixed Income Portfolio.
E. Disclosure of completed transactions for this period:
   1. None.

Jennifer Eichholz, Esq.
In-House Investment Counsel

A brief description was provided regarding Panda Power Annex Fund, CB Ignite Holdings, LLC Fund and Rockbridge Hospitality Fund VII LP Fund. The de-selection of funds is considered due to rebalancing of the portfolio.

13. Presentation, review, discussion and possible Action regarding adoption of PSPRS Israel Boycott Divestment Compliance Policy.

Jennifer Eichholz, Esq.

Discussion was held regarding the anti-boycott of Israel legislation approved by Arizona’s Congress this past spring session.

<table>
<thead>
<tr>
<th>MOTION:4-8/24/16</th>
<th>At 2:54 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To accept the recommendation of the Investment Committee to accept the PSPRS Israel Boycott Divestment Compliance Policy. The list will be maintained by Staff.</td>
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<tr>
<td>Moved by:</td>
<td>The PSPRS Investment Committee</td>
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<tr>
<td>Seconded by:</td>
<td></td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes Mr. Davis – Excused; one vacant Board position</td>
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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, August 24, 2016, on or after 11:00 a.m., and possible Action on the Committee's recommendations to the Board regarding same.

14. Review, discussion and possible Action regarding PSPRS’s ownership of the property located at 3010 E. Camelback Road, Phoenix, Arizona.

Ivy Voss, Esq.
Assistant Attorney General
Mr. Ryan Parham
Assistant Administrator and CIO

PSPRS owns the 3010 East Camelback Road building outside of the trust, which potentially exposes the Trust to liability. We propose to transfer the building into an LLC and have the building managed by a management company.

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<tr>
<th>MOTION:5-8/24/16</th>
<th>At 2:57 p.m.</th>
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<tr>
<td>Motion:</td>
<td>To go forward and form an LLC and Staff move forward with the process.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. McHenry</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Ms. Stein</td>
</tr>
<tr>
<td>Discussion:</td>
<td>Mr. Ferguson expressed concern that none of the current board members will be here and to defer this to the new board. Mr. Parham replied we can do this sooner and amend the budget. Ms. Stein expressed concern regarding the issue of exposure. Mr. McHenry stated this takes from one pocket and puts it into another pocket.</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes Mr. Davis – Excused; one vacant Board position</td>
</tr>
</tbody>
</table>
15. Presentation of the Month-to-Date Budget Report for FY 2017 and possible Action on same.  
   Mr. John Hendricks  
   Manager of Finance and Accounting

For the 2016 fiscal year, the PSPRS budget ended under budget by 8.61%.

16. Update and possible discussion on the progress of filling staffing positions.  
   Mr. Jared A. Smout

Two new staff members were introduced. Mr. John Briney, Enterprise Systems Architect, and Mr. Christian Palmer, Communications Director. Mr. Robert Ortega is now Member Services Director and Ms. Della Hieb and Ms. Connie Vasquez, who are retiring, were thanked for their services.

17. 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

Written report provided by Local Board Training Coordinator. No discussion was held.

18. Presentation of the "Requests for Local Board Rehearing" Report for the current month.  
   Mr. Jared A. Smout

There are no requests for a local board rehearing.

   Mr. Jared A. Smout

The Operations, Governance Policy and Audit Committee approved payment of the law firms’ June billing for $66,831.06 and July billing for $93,039.13.

   Ms. Bridget Feeley

Written report provided by Internal Audit and Compliance Officer. No discussion was held.

21. Review, discussion and possible Action on proposed, pending and passed legislative actions.  
   Mr. Jared A. Smout

Ms. McAllister presented an update, including information regarding new positions in the Office of the Governor and the possibility of CORP reform.

Mr. Smout described tasks and their ownership, processes, and deadlines regarding the Timeline for Pension Reform. In consultation with the Senate and legal counsel, the two PSPRS Boards will function simultaneously, but with mutually exclusive purposes. The current Board of Trustees will continue to operate until the end of December. The new Board with 8 appointed members will elect a chairman. The chairman will then appoint the Advisory Committee where the Advisory Committee will then nominate 5 people back to the full board for consideration of the ninth seat on the Board. The Board will choose 3 of the 5 names to the Governor for appointing the ninth member. Training days will be held in November and December to bring the new members up to speed before they officially take office on January 1, 2017.
22. **Update, discussion and possible Action** on risk-pooling and local board consolidation study being conducted by Cortex Applied Research.

   *Mr. Jared A. Smout*

   Phase I of the study has been completed. The timeline for Phase II was described and a report will be released to stakeholders for their input. A final report is expected to be released in November.

23. **Discussion and possible Action** on PSPRS Defined Contribution Plan Committee charter.

   *Mr. Jared A. Smout*

   Discussion regarding the form, process and development of the PSPRS Defined Contribution Plan Committee charter draft was held. Discussion topics also included committee makeup, term, structure, duties and decision making processes. It is urgent that a Request for Proposal for a third party administrator be sent out in a timely manner. No action was taken and discussion to be continued at the next Board meeting.

24. **Discussion, review and possible Action** regarding approval of Part 1 of PSPRS’s Special Pay Plan, as authorized by A.R.S. 38-611.02.

   *Mr. Jared A. Smout*

   Discussed in Executive Session.

   **MOTION:6-8/24/16**
   
   At 3:51 p.m.
   
   Motion: To recess the Open Meeting and enter Executive Session for Agenda items 24 and 26.
   
   Moved by: Mr. Ferguson
   
   Seconded by: Mr. McHenry
   
   Discussion: None
   
   In Favor: Unanimous
   
   Motion: Passes

   Open Session resumed at 5:33 p.m. Mr. Smout said the Board was asked for guidance as to how to proceed with Part 1 of the PSPRS’s Special Pay Plan. Approval was recommended to allow the Administrator, as authorized, to enter into contracts.

   **MOTION:7-8/24/16**
   
   At 5:33 p.m.
   
   Motion: To accept Part I of the employment contracts as part of our Special Pay Plan as distributed to the Board of Trustees members in Executive Session, leaving parts 2 and 3 for future consideration. To allow the Administrator, as authorized, to enter into contracts.
   
   Moved by: Mr. McHenry
   
   Seconded by: Mr. Ferguson
   
   Discussion: None
   
   In Favor: Mr. McHenry, Mr. Ferguson, Chairman Tobin
   
   Opposed: Mr. Petrenka, Ms. Stein
   
   Motion: Failed 3 to 2

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

   *Mr. Brian P. Tobin*

   No requests for training were made.
26. 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, Bank of America, Desert Troon, 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 27.

27. 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 26, including but not limited to, those involving Ken Fields and 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, including the Administrator's Annual Performance Review, as authorized by A.R.S § 38-431.03(A)(1).

28. Schedule future meeting date(s). (Currently scheduled for Tuesday and Wednesday, September 20 and 21, 2016.)

The tentative date for the next meeting is Wednesday, September 21, 2016.

29. Adjournment.

The meeting was adjourned at 5:40 p.m.

_________________________________________
Brian P. Tobin, Chairman

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Gregory Ferguson, Trustee, Vice Chairman

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Randie A. Stein, Trustee

_________________________________________
Jeff Allen McHenry, Trustee

_________________________________________
Richard J. Petrenka, Trustee

_________________________________________
William C. Davis, Trustee - Excused