The Board of Trustees of Public Service Personnel Retirement System ("PSPRS") held a meeting on August 26, 2015 in the board room, PSPRS, 3010 E. Camelback Road, Suite 200, Phoenix, AZ. The following matters were discussed, considered and decided at the meeting:

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

   *Mr. Brian P. Tobin*
   *Chairman*

   Chairman Tobin called the meeting to order at 1:00 p.m. During the meeting, public access to communications by Board Members participating through telephonic conference was provided via speaker phone.

2. **Call to the Public.**

---

1 Minutes of the Board of Trustees’ Meetings, Committee Meetings, and Work Study Sessions are prepared in accordance with the provisions of Arizona Revised Statutes. These Minutes are intended to be an accurate reflection of action taken and direction given by the Board of Trustees and are not verbatim transcripts. Digital recordings of the meetings are available on file with the Administrator’s office.

2 At 3:10 p.m., Ms. Stein departed, attending the remainder of the meeting via telephone conference.
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.

Mr. Jim Baker of Unite Here, spoke recommending against investing in Walton Street Capital.

Mr. James Simkins, an employee of Rivers Casino, spoke recommending against investing in Walton Street Capital.

Ms. Stacie Steenson, an employee of Rivers Casino, spoke recommending against investing in Walton Street Capital.

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 Rebecca W. Berch.
   b. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of A. Craig Blakely II.
   d. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Peter Cahill.
   e. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Boyd Dunn.
   g. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Marlin F. Gillespie.
   h. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Joni Gillespie.
   i. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Stella Glenn.
   j. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Bethany G. Hicks.
   l. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Lowell Huggins.
   m. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Mary Ann Huggins.
   n. Acceptance of Elected Officials’ Retirement Plan of termination normal retirement benefit of Michael Irwin.
o. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Phyllis Irwin.
q. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Julie P. Newell.
r. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Freddie C. Ramos.
s. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Anne F. Segal.
t. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Billy F. Walker.
u. Acceptance of Transfer Between State Retirement Systems of David Chrispen.
v. Acceptance of Transfer Between State Retirement Systems of James Kline.
w. Acceptance of Transfer Between State Retirement Systems of Timothy Maloney.
x. Acceptance of Transfer Between State Retirement Systems of Carlos Rodriguez.
y. Acceptance of Transfer Between State Retirement Systems of John Armstrong.
z. Acceptance of Transfer Between State Retirement Systems of Danny Harrison.
aa. Acceptance of Transfer Between State Retirement Systems of Louis Szilagi.
bb. Acceptance of Transfer Between State Retirement Systems of Lynn Howe.
c. Acceptance of Transfer Between State Retirement Systems of Jilber Altounian.
d. Acceptance of Transfer Between State Retirement Systems of Craig Blakey.
e. Acceptance of Transfer Between State Retirement Systems of Scott Mueller.
f. Acceptance of Transfer Between State Retirement Systems of Sean Hall.
g. Acceptance of Transfer Between State Retirement Systems of Robert Lenz.
hh. Acceptance of Transfer Between State Retirement Systems of Troy Navarro.
ii. Acceptance of Transfer Between State Retirement Systems of Steven Copp.
jj. Acceptance of Transfer Between State Retirement Systems of Michelle Lassila.
k. Acceptance of Transfer Between State Retirement Systems of Allen Smith.
ll. Acceptance of Transfer Between State Retirement Systems of Raymond O'Neil.
mm. Acceptance of Transfer Between State Retirement Systems of Kenneth Leikem.
nn. Acceptance of Transfer Between State Retirement Systems of Deborah Machin.
oo. Acceptance of Transfer Between State Retirement Systems of Suzanne Gust.
pp. Acceptance of Transfer Between State Retirement Systems of Marc Goldberg.
qq. Acceptance of Transfer Between State Retirement Systems of Sean Hall.
rr. Acceptance of Transfer Between State Retirement Systems of Emery Hudson.
s. Acceptance of Transfer Between State Retirement Systems of Kippy Compton.
tt. Acceptance of Transfer Between State Retirement Systems of Kevin Nonaka.
uu. Acceptance of Transfer Between State Retirement Systems of Paul D. Matson.
v. Acceptance of Transfer Between State Retirement Systems of Anthony Mennella.
ww. Acceptance of Transfer Between State Retirement Systems of Mary Walsh-Navarro.
xx. Acceptance of Transfer Between State Retirement Systems of Matthew Graner.
yy. Acceptance of Transfer Between State Retirement Systems of Jilber Altounian.
z. Acceptance of Transfer Between State Retirement Systems of Scott Miller.
aaa. Acceptance of Transfer Between State Retirement Systems of Steve Martos.
bbb. Acceptance of Transfer Between State Retirement Systems of Michael Cornelius.
c. Acceptance of Transfer Between State Retirement Systems of John Meyer.
4. **Appropriate Action** regarding the Minutes of the June 17, 2015 Meeting; and Minutes of the August 13, 2015 Special Meeting of the PSPRS Board of Trustees.

   *Mr. Brian P. Tobin*

   **MOTION:1-8/26/15**  
   At 1:10 p.m.  
   Motion: To approve the Consent Agenda in entirety as presented by Staff.  
   Moved by: Mr. Ferguson  
   Seconded by: Mr. Kingry  
   Discussion: None  
   In Favor: Unanimous  
   Motion: Passes

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

   *Ms. Bridget Feeley*

   **Internal Audit and Compliance Officer**

   This written report was presented during the Investment Committee meeting and there were no questions.

6. **Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of June 30, 2015.**

   *Ms. Bridget Feeley*

   Nothing remarkable was noted regarding this report.

7. **Report by Investment Department Staff regarding Portfolio Risk as of Fiscal Year Q4 2015.**

   *Mr. Mark Steed*

   **Lead Portfolio Manager and Chief of Staff**

   *Mr. Owen Zhao*

   **Portfolio Analyst - Risk**
A formal introduction of Mr. Zhao to the Board was given prior to the discussion of current market conditions and volatility as of June 30, 2015. Three major changes in VAR in asset class risk occurred. International Equity risk was up 1.77%, Private Equity was up 1.58% and U. S. Equity was up and remains the highest contributor to VAR. Risk Parity and Fixed Income portfolios decreased in risk.

The PSPRS Trust portfolio is now in the top-quartile in return performance since July, 2014. Since 2009, the Trust has been in the top-decile in terms of risk and, in terms of efficiency, it has been in the top-quartile since 2010. Discussion was held regarding the influences on our global economy due to the financial environment in China. Our portfolios are positioned conservatively due to risk adverse strategies. Because of the risk-adverse strategy, it is expected that our volatility will increase less compared to other pension plans.

8. Presentation and discussion by NEPC representative(s) on the Fourth Fiscal Quarter (Second Calendar Quarter) investment performance and the 2015 Fiscal Year investment performance for the Arizona PSPRS Trust.

   Mr. Allan Martin
   NEPC, LLC.

Return for the year was 4.2%, which did not meet the required assumed rate of return of 7.85%; however, due to the Trust's low risk strategy performance, it was higher than the returns of most funds. Three-year and five-year return were above the 7.85 assumed rate of return. Over the last five years, PSPRS has earned $3.1 billion in investment returns. In a mature plan, payout is more than the retirement money paid, which has been $752 million over the last five years.

For the one-year period, three funds earned greater than a 4% return: San Bernardino – 4.6%; New Mexico RS – 4.03% and PSPRS – 4.21%. The challenges are how to get back up to 7.85% when markets, going forward, are not going to be as attractive as they have been in the last five years.

9. Presentation by Alborne Consultants and discussion by Investment Department Staff and Consultants regarding the annual Overview and Strategic Plan for the Absolute Return portfolio.

   Mr. Ryan Parham
   Assistant Administrator and Chief Investment Officer
   Mr. Lincoln Smith
   Alborne Consultants

Mr. Smith outlined that the target weight for the Absolute Return portfolio is 5% of the Trust portfolio. The goal is to exceed the benchmark of T-bills +2% per year and the target is 7.85%, our assumed rate of return. We look for consistent returns over the market cycle. Discussion was held regarding the use of the absolute return hedge fund managers to generate return and preserve capital. Strategy of this sub-portfolio was discussed, including framework, areas of specialization, performance of the six managers, make-up of the manager firms and amount each manager represents of the total portfolio.

Mr. Smith discussed the sell strategy in regard to the Trust's thesis playing out in relationship to the managers' performances. What changes to look for include signs of investors or staff leaving the absolute return managers. If there are such changes, think
carefully about redeeming that fund. The Absolute Return portfolio is meeting its objectives. The one year performance was 7.6%.

10. Disclosure by Investment Staff of the following manager selection matters:

   a. Disclosure of a potential investment of up to $50 million with Ridgewood Energy Oil & Gas Fund III, LP or its affiliates in the Ridgewood Energy Oil & Gas Fund, subject to final Staff and legal due diligence.

   b. Disclosure of a potential investment of up to $101 million with Melody Telecom Land Fund GP, LLC, or its affiliates in the Melody Telecom Land Onshore Fund, subject to final Staff and legal due diligence.

   c. Disclosure of a potential investment of up to €35,000,000 with Patron Capital GP V, LP, or its affiliates, in the Patron Capital Feeder V Fund, subject to final Staff and legal due diligence.

   d. Disclosure of a potential investment of up to $100 million with Crestline CS 3000 Fund or its affiliates in the Crestline CS 3000 Fund, subject to final Staff and legal due diligence.

   e. Disclosure of a potential investment of up to $80 million in the Myriad Opportunities Fund, subject to final Staff and legal due diligence.

   Mr. Martin Anderson
   Deputy Chief Investment Officer

There were no questions from the Board.

11. Disclosure of closed transactions for the period June 11, 2015 through August 12, 2015:

   a. Ridgewood Energy Oil & Gas Fund III., LP; Date Closed: June 30, 2015;
   b. Melody Telecom Land Onshore Fund; Dated Closed: June 30, 2015;
   c. Sterling Group Partners IV., LP Fund; Date Closed: June 30, 2015;
   d. Patron Capital Feeder V Fund; Date Closed: July 9, 2015;
   e. Blackrock Mortgage Offshore Investors; Redemption complete July 15, 2015;
   f. Crestline CS 3000 Fund; Date Closed: July 30, 2015.

Following review by the Investment Committee meeting, there were no comments.

12. Disclosure of terminated transactions for the period June 11, 2015 to August 12, 2015:

   a. Potential transaction with a Systematic Trading Strategy was terminated due to removal of legal language which prevented PSPRS entering into the investment and as transaction became structurally unworkable for PSPRS.

   Jennifer Eichholz, Esq.
   In-House Investment Counsel

There were no questions regarding terminated transactions.
13. **Updated report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-End performance for the PSPRS Trust as of June 30th, 2015; and (ii) updated written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program for the same period.**

   Ms. Vaida Maleckaite  
   Sr. Investment Operations Analyst

   The Trust’s asset value at Fiscal Year-End is $8,337,393,236. This is $46 million greater than the previous quarter and $200 million greater than June, 2014. The fiscal year performance was 4.21%. The Trust outperformed the benchmark by 8 basis points for the second quarter of the calendar year. Private Equity, Credit Opportunity, and Absolute Return outperformed their benchmarks. Asset classes GTAA and Risk Parity underperformed. The Firefighters and Peace Officers Cancer Insurance Program underperformed for the Trust, since it is made up of 50/50 bond/equity split.

14. **Nationwide Retirement Solutions (NRS) Quarterly Administrative Review of the PSPRS Supplemental and Elected Officials Defined Contribution System (EODCRS) 401(a) Plans.**

   Mr. Jim Keeler, Program Director  
   Nationwide

   Mr. Keeler reported the PSPRS Supplemental 401(a) total assets are $12,335,000. The EODCRS 401(a) plan has assets of $158,428. At the end of June, the federal “Defending the Public Safety and Employers Retirement Act” was enacted. Currently a public safety employee who retires at the age of 55 can begin a monthly withdrawal from the qualified pension plan (no longer subject to the 59½ provision for a 10% early withdrawal penalty). The Federal government was trying to rectify items regarding Federal firefighters and extended such changes to all. Defending the Public Safety Retirement Act lowers such age to 50, effective January, 2016.

**Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 15. through 21., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, August 26, 2015, on or after 11:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.**

15. **Presentation of the Month-to-Date Budget Report for FY 2016 and possible Action on same.**

   Mr. John Hendricks  
   Manager of Finance and Accounting

   PSPRS ended the fiscal year 1.18% under budget due to a couple of vacant personnel positions for the majority of the year. Adding in litigation, PSPRS would be 1.7% over budget and adding in both litigation and investment due diligence, we would be 6.7% over budget.
16. **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*

In addition to the written report, an upcoming training session via webinar or in person scheduled for September 16, 2015 has almost 100 people signed up to participate.

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

   *Mr. Jared A. Smout*
   
   *Deputy Administrator*

There was one remaining request for which the disability application has subsequently been withdrawn by the member.

18. **Review and discussion regarding law firms' billings for legal services performed in June and July, 2015.**

   *Mr. Jared A. Smout*

The Operations, Governance Policy and Investment Committee approved payments of June legal bills of $157,031.78 and July legal bills of $83,168.21.

19. **Report and possible Action on the FY 2015 and FY 2016 Compliance and Internal Audit Plan.**

   *Ms. Bridget Feeley*

Ms. Feeley reported that the Implementation Log has been updated. The open items on the list include one item due on the accounts payable review and there is one item to review regarding building security. Review of the IRS compliance letters has been completed and PSPRS has acted to rectify issues that were raised and has implemented all promised actions. Risk assessment for 2016 has been finished, review of the Auditor General’s report is complete and we have met with the Auditor General’s staff. Recommendations by the Auditor General are being implemented into the 2016 plan.

20. **Discussion and possible Action regarding the various interest and other rates utilized by the PSPRS, CORP and EORP in a variety of situations and establishing a policy to periodically review and revise as necessary.**

   *Mr. Jared A. Smout*

Mr. Smout has compiled a chart showing various interest and other rates that have been set either by PSPRS or by statute.

21. **Discussion and possible Action regarding future proposed legislation.**

   *Mr. Jared A. Smout*

Mr. Doug Cole of Public Policy Partners presented an update regarding future proposed legislation. He updated the Board on the status of meetings attended with Mr. Smout, Ms. McAllister and members of the Arizona legislature. The goal is to meet with all 90 members. He indicated that the Trust has begun conversations with members of the
Committee of Reference which will hear our Sunset Review in October and are discussing the Sunset Review process. Mr. Smout has attended every meeting regarding pension reform. These meetings are high level and have been going well.

Last week, at the annual meeting of League of Cities and Towns, Mr. McCarty presented a well-attended breakout session with information about PSPRS. The Reason Foundation (a national organization focused on assisting legislators and systems with pension reform across the country) is assisting Senator Lesko and was brought into the pension reform discussion. Their representative spoke about what they have done across the country regarding pension reform.

Mr. Smout spoke about possible legislation regarding Fire District Local Board issues and the Fire Chief issue. Mr. Cole explained Maricopa County’s desire to pay down their pension liability as related to the expenditure limitation and the need to clarify the state statute regarding the same. We are looking into solving the unfunded liability problem, drafting a Pension Reform bill including what needs to be accomplished by statute change and what must be sent to the voters for constitutional change.

22. 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.

The Board has reviewed a second revision of a flow chart regarding use of legal counsel and their scope of work. This agenda item was discussed and the Board tabled it to be completed at a subsequent meeting.

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

   Mr. Jared A. Smout

This item was tabled.

24. Discussion and possible Action regarding selection of a PSPRS Administrator and potential selection of a job search firm to conduct a national search for a PSPRS Administrator.

   Mr. Brian P. Tobin

Refer to the agenda item #25 below.

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

   Mr. Brian P. Tobin
26. 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.

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).

MOTION:4-8/26/15
Motion: At 2:51 p.m.
To make an offer to Mr. Jared Smout, Acting Administrator to become System Administrator and to authorize Chairman Tobin to negotiate an employment agreement.

Moved by: Mr. Ferguson
Seconded by: Mr. Petrenka
Discussion: Chairman Tobin stated Mr. Smout has done a great job doing the tasks of staff positions over the last year. In the last six months his performance has improved dramatically. We thank him.

In Favor: 5
Not in Favor: 2
Motion: Passes
d. Update and discussion on the System Administrator position and other personnel matters, as authorized by A.R.S § 38-431.03(A)(1).

e. Discussion regarding selection of a PSPRS Administrator and potential selection of a job search firm to conduct a national search for a PSPRS Administrator, as authorized by A.R.S. § 38-431.03(A)(1), (3) and(4).

<table>
<thead>
<tr>
<th>MOTION: 3-8/26/15</th>
<th>At 1:49 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>To recess Open Session and enter Executive Session.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. McHenry</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Kingry</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

Open Session resumed at 2:50 p.m.

29. Schedule future meeting date(s). *(Currently scheduled for Wednesday, September 30, 2015.)*

The next meeting is scheduled for Wednesday, September 30, 2015.

30. **Adjournment.**

The meeting was adjourned at 5:00 p.m.

__________________________
Brian P. Tobin, Chairman

__________________________  ____________________________
Gregory Ferguson, Trustee,  Randie A. Stein, Trustee
     Vice Chairman

__________________________  ____________________________
Jeff Allen McHenry, Trustee  Richard J. Petrenka, Trustee

__________________________  ____________________________
Lauren Kingry, Trustee      William C. Davis, Trustee