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

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.

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


   c. Acceptance of Elected Officials’ Retirement Plan of termination of early retirement benefit of William West, Jr.

   d. Acceptance of Transfer Between State Retirement Systems of Francis Hand, Jr.

   e. Acceptance of Transfer Between State Retirement Systems of Benjamin Marx.
Acceptance of Transfer Between State Retirement Systems of Joshua Cameron.

Acceptance of Transfer Between State Retirement Systems of Lyle Peeples.

Acceptance of Transfer Between State Retirement Systems of Rodney States.

Acceptance of Transfer Between State Retirement Systems of Michael Dirilo.

Acceptance of Transfer Between State Retirement Systems of Irma Estrada.

Acceptance of Transfer Between State Retirement Systems of Trevor Wallace.

Acceptance of Transfer Between State Retirement Systems of Billy McDaniel.

Acceptance of Transfer Between State Retirement Systems of Adam Shipley.

Acceptance of Transfer Between State Retirement Systems of Justin White.

Acceptance of Transfer Between State Retirement Systems of Richard Dreiling.

Acceptance of Transfer Between State Retirement Systems of Sean Carney.

Acceptance of Transfer Between State Retirement Systems of Jeanette Brawley.

Acceptance of Transfer Between State Retirement Systems of Donna Swan.

Approval of the Minutes of the January 20, 2016 Meeting of the PSPRS Board of Trustees.

Discussion and appropriate Action with respect to the EORP disability application of Colten P. White.

Appointment of members to the Committees of the Board of Trustees.

Report by Mr. Lauren W. Kingry, Chairman of the Investment Committee, regarding agenda items 6. through 13., which were discussed at the Investment Committee meeting held today, February 24, 2016, on or after 10:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

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

Report by the System's Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions, as of December 31, 2015.
8. Presentation and written report by Investment Department Staff regarding Portfolio Risk as of December 31, 2015.

   Mr. Owen Zhao
   Portfolio Analyst - Risk

9. Presentation and written report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of December 31, 2015; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

   Ms. Vaida Maleckaitė
   Sr. Investment Analyst


    Mr. Ryan Parham
    Assistant Administrator and Chief Investment Officer

    Mr. Allan Martin
    NEPC, LLC.


    Mr. Ryan Parham

    Mr. Alan Martin

12. Disclosure by Investment Department Staff of the following manager selection matters this period:

    A. New and potential investments considered:

       1. Disclosure of a potential investment of up to $50 million direct in a separately managed account (SMA) investing in various securities issued by Master Limited Partnerships in the energy sector, in the Real Assets portfolio, subject to final Staff and legal due diligence.

       2. Disclosure of a potential investment of up to $50 million direct investment in a fund focusing on mid-market buyouts in the Private Equity portfolio, subject to final Staff and legal due diligence.

    B. Disclosure of closed transactions:

       1. None this period.

    C. Current investments considered for de-selection:

       1. None this period.

    D. Disclosure of completed transactions:
1. None this period.

E. Disclosure of transactions withdrawn from consideration:

   1. None this period.

   Jennifer Eichholz, Esq.

13. Discussion and possible Action regarding minor clarification revisions to the PSPRS Investment Policy Statement.

   Mr. Ryan Parham

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 14. through 21., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, February 24, 2016, 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 2016 and possible Action on same.

   Mr. John Hendricks
   Manager of Finance and Accounting

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

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

   Mr. Jared A. Smout
   Administrator

17. Review and discussion regarding law firms' billings for legal services performed in January, 2016.

   Mr. Jared A. Smout


   Ms. Bridget Feeley

19. Review, discussion and possible Action with respect to the FY 2017 PSPRS Administrative Budget.

   Mr. Jared A. Smout

20. Review, discussion and possible Action on pending and passed legislative proposals for the 2016 legislative session including an administrative amendment bill.

   Mr. Jared A. Smout

21. Update and discussion on the progress of implementing the Auditor General Recommendations as agreed to in their Performance Audit and Sunset Review.

   Mr. Jared A. Smout
22. Nationwide Retirement Solutions (NRS) Quarterly Administrative Review of the PSPRS Supplemental and EODCRS 401(a) Plans.

   Mr. Jim Keeler
   Program Director
   Nationwide Retirement Solutions


   Ivy N. Voss, Esq.
   Assistant Attorney General

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

   Mr. Brian P. Tobin

25. 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 26.

26. 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 25, 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. Update and discussion on the System Administrator position and other personnel matters, as authorized by A.R.S § 38-431.03(A)(1).

27. Schedule future meeting date(s). (Currently scheduled for Wednesday, March 23, 2016.)

28. Adjournment.

A copy of the agenda background material that is provided to the Board of Trustees (with the exception of materials relating to possible executive sessions and/or materials exempt by law from public inspection) is available for public inspection at the PSPRS offices located at 3010 East Camelback Road, Suite, 200, Phoenix, Arizona. The agenda is subject to revision up to 24 hours prior to the meeting.

Persons with a disability may request a reasonable accommodation, such as a sign language interpreter,
by contacting Michelle Pechan, Paralegal, at (602) 255-5575. Requests should be made as early as possible to arrange the accommodation.
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

January 20, 2016

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. Lauren W. Kingry, Trustee - Excused
Mr. William Davis, Trustee

Others Present: Mr. Jared Smout, Administrator
Mr. Ryan Parham, Chief Investment Officer
Ms. Ivy N. Voss, Esq., Assistant Attorney General
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Shan Chen, Lead Portfolio Manager
Mr. Mark Steed, Deputy CIO and Chief of Staff
Ms. Vaida Maleckaité, Investment Operations Analyst - Excused
Mr. Owen Zhao, Portfolio Manager
Mr. Chris Hill, NEPC LLC
Ms. Bridget Feeley, Internal Audit and Compliance Officer - Excused
Ms. Ivy Voss, Assistant Attorney General
Ms. Jennifer Eichholz, Esq., In-House Investment Counsel
Ms. Rose Crutcher, Investment Paralegal
Mr. Paul Hemmes, Information Technology
Ms. Dianne McAllister, Public Policy Partners
Mr. Doug Cole, Public Policy Partners
Mr. Jay Rose, StepStone Group, LLC
Mr. David Hutchings, Albourne America
Mr. Corey Arvizu, Managing Partner
Mr. Christopher Heinfeld, Audit Manager, Heinfeld Meech & Co., P.C

1. Call to Order; Roll Call; Opening remarks

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

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.

   c. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Juanita Burton.
   d. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Glenn Gill.
   e. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Sandra Gill.
   g. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of George D. Gradillas.
   h. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Lillian Hall.
   i. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Barbara Hink.
   k. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Sandra W. McFate.
   l. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Linda Lee Morrow.
   m. Acceptance of Elected Officials’ Retirement Plan of termination of early retirement benefit of James J. Skelly.
   n. Acceptance of Transfer Between State Retirement Systems of Eric Miller.
   o. Acceptance of Transfer Between State Retirement Systems of Aaron Victor.
   p. Acceptance of Transfer Between State Retirement Systems of Travis Millsap.
   q. Acceptance of Transfer Between State Retirement Systems of Timothy Shay.
   r. Acceptance of Transfer Between State Retirement Systems of James Groat.
   s. Acceptance of Transfer Between State Retirement Systems of Christian Huber.
   t. Acceptance of Transfer Between State Retirement Systems of Chase Wright.
   u. Acceptance of Transfer Between State Retirement Systems of Giogi Chiappo-West.
   v. Acceptance of Transfer Between State Retirement Systems of Kelly Kennedy.
   w. Acceptance of Transfer Between State Retirement Systems of Adrian Ruiz.
   x. Acceptance of Transfer Between State Retirement Systems of Derek Stephenson.
   y. Acceptance of Transfer Between State Retirement Systems of Lance Larson.
z. Acceptance of Transfer Between State Retirement Systems of Andrew Whiteneck.

aa. Acceptance of Transfer Between State Retirement Systems of Shawn Hanson.

bb. Acceptance of Transfer Between State Retirement Systems of Michael Johnston.

c. Acceptance of Transfer Between State Retirement Systems of Ernesto Lugo.

d. Acceptance of Transfer Between State Retirement Systems of Jose Gaxiola.

ee. Acceptance of Transfer Between State Retirement Systems of Kari Dory.


gg. Acceptance of Transfer Between State Retirement Systems of Randall Roether.

hh. Acceptance of Transfer Between State Retirement Systems of David Holland.


jj. Acceptance of Transfer Between State Retirement Systems of James Parr.

kk. Acceptance of Transfer Between State Retirement Systems of Eric Breindl.

ll. Acceptance of Transfer Between State Retirement Systems of Clifford Freeman.

mm. Acceptance of Transfer Between State Retirement Systems of Kelly McMenemy.

nn. Acceptance of Transfer Between State Retirement Systems of Jacob Pedersen.

oo. Acceptance of Transfer Between State Retirement Systems of Ramona Means.


qq. Acceptance of Transfer Between State Retirement Systems of Kevin Tilley.

rr. Acceptance of Transfer Between State Retirement Systems of Christopher Hall.

ss. Acceptance of Transfer Between State Retirement Systems of Elaine Bates.

tt. Acceptance of Transfer Between State Retirement Systems of Keith Kaminski.

uu. Acceptance of Transfer Between State Retirement Systems of Michael Long.

vv. Acceptance of Transfer Between State Retirement Systems of Robert Shetler.

ww. Acceptance of Transfer Between State Retirement Systems of Paul Bartholomew.


yy. Acceptance of Transfer Between State Retirement Systems of Ramon Lopez.

zz. Acceptance of Transfer Between State Retirement Systems of Daniel Musselman.


bbb. Acceptance of Transfer Between State Retirement Systems of Roy Domínguez.


ddd. Acceptance of Transfer Between State Retirement Systems of Eryn Hover.

eee. Acceptance of Transfer Between State Retirement Systems of Eric Mendoza.

fff. Acceptance of Transfer Between State Retirement Systems of Trent Otis.

ggg. Acceptance of Transfer Between State Retirement Systems of Cheryl Horvath.

hhh. Acceptance of Transfer Between State Retirement Systems of Billy McDaniel.

iii. Acceptance of Transfer Between State Retirement Systems of Harry Reiter.

jjj. Acceptance of Transfer Between State Retirement Systems of David Havely.

kkk. Acceptance of Transfer Between State Retirement Systems of Robert Benham.

lll. Approval of the Minutes of the November 18, 2015 Meeting of the PSPRS Board of Trustees.

Mr. Brian P. Tobin
4. Discussion and possible Action regarding the adoption of the amended and restated Supplemental Defined Contribution Plan and the Arizona Defined Contribution Plan for Term Limited State Officials and Exempt State Officers and Employees.

   Mr. Jared A. Smout
   Administrator

Approximately two years ago, the Board adopted amendments to the Term Limited Plan and the Supplemental DC Plan to bring these plans into compliance with IRS Rules and Regulations. We are submitting these amended plans to the Board in the regular cycle. The Board needs to take action by accepting the complete package, as amended and restated, in its entirety.

   MOTION:1-1/20/16 At 1:01 p.m.
   Motion: To accept the Consent Agenda as presented.
   Moved by: Mr. Ferguson
   Seconded by: Mr. McHenry
   Discussion: Ms. Stein stated two notable legislators, Mr. Jack A. Brown and Mr. James J. Skelly, passed away and the Board acknowledged their service to the state.
   In Favor: Unanimous – Mr. Kingry - Excused
   Motion: Passes

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

   Mr. Brian P. Tobin

   MOTION:2-1/20/16 At 1:04 p.m.
   Motion: Move to approve as presented.
   Moved by: Mr. Ferguson
   Seconded by: Mr. Petrenka
   Discussion: None
   In Favor: Unanimous – Mr. Kingry - Excused
   Motion: Passes

   MOTION:3-1/20/16 At 1:06 p.m.
   Motion: Move to approve as presented.
   Moved by: Mr. Ferguson
   Seconded by: Mr. McHenry
   Discussion: None
   In Favor: Unanimous – Mr. Kingry - Excused
   Motion: Passes
Report by Mr. Lauren Kingry, Chairman of the Investment Committee, regarding agenda items 6. through 12., which were discussed at the Investment Committee meeting held today, January 20, 2016, on or after 10:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

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

Ms. Bridget Feeley
Internal Audit and Compliance Officer

A written report was provided with the monthly material, for which there were no questions.

7. Written report and possible discussion by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions, as of November 30, 2015.

Ms. Bridget Feeley

A written report was provided with the monthly material, for which there were no questions.

8. Written report by Investment Department Staff regarding Portfolio Risk as of November 30, 2015.

Mr. Owen Zhao
Portfolio Analyst - Risk

Discussion was held regarding the written report during the Investment Committee meeting.

9. Written report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of November 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 Analyst

A written report was provided with the monthly material, for which there were no questions.

10. Presentation and discussion by Investment Department Staff and Consultants regarding the annual Overview and Strategic Plan for the Private Equity Portfolio.

Mr. Shan Chen
Lead Portfolio Manager

Mr. David Hutchings
Albourne America

Mr. Jay Rose
StepStone Group, LLC
Mr. Chen reported that, since inception, the Private Equity portfolio had made $1.9 billion in commitments and has had $827 million in total distributions. Last year, there were 6 direct commitments, 5 co-investments, 3 re-ups, and 2 new managers. Performance as of 9/30/15 experienced a total IRR since inception of 12.67%. Three years ago, the IRR since inception was 7.48% and one year ago it was 11.7%.

Mr. Rose reported $670 million gain in the last five years. He reported on sectors, sub-sectors, vintage years, geographical exposure. Additionally, he presented information regarding U.S. small and mid-market buyouts. The secondary portfolio market review included information regarding performance, strategy, fund vintage, and geography.

The third speaker was Mr. Hutchings who presented the private market summary looking back from December 2006 to December 2015. This included performance of the private market as compared to public markets.

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

A. New and potential investments considered this period:

1. A potential investment of up to $30 million in the Castle Creek Capital Partners VI Fund, allocated to the PSPRS Private Equity portfolio, subject to final Staff and legal due diligence.

2. A potential investment of up to $40 million in the Lubert-Adler Laramar Urban Neighborhood Fund, allocated to the PSPRS Real Estate portfolio, subject to final Staff and legal due diligence.

3. A potential investment of up to $50 million to establish a separately managed account (SMA) to be managed by Salient Capital Advisors, LLC, allocated to the PSPRS Real Assets portfolio, subject to final Staff and legal due diligence.

Mr. Martin Anderson  
Deputy Chief Investment Officer

B. Investments considered for de-selection this period:

1. Brevan Howard Master Fund, Ltd. Staff recommends full redemption of all investments. Estimated redemption completion date: October 31, 2016. This Fund is allocated to the PSPRS Absolute Return Portfolio.

2. Pebble Creek (Robson Communities); Staff recommends a sale of our interest in Pebble Creek Properties (Robson Communities). The fund is allocated to the PSPRS Real Estate Portfolio.

3. West Face Long Term Opportunities (USA), L.P. Staff recommends full redemption of all investments. This investment is allocated to the PSPRS Private Credit portfolio.

The Board focused on Agenda item 11 B. Mr. Parham added some detail regarding the de-selected items. All board members are invited to the Selection meeting of the investment staff, but the information is confidential.
12. Disclosure of closed transactions for this period.
   a. Davidson Kempner Special Situations Fund III; Committed Amount up to $80 million; Date Closed: August 24, 2015; PSPRS Asset Class: Credit Opportunities.
   b. LSV Special Opportunities Fund V; Committed Amount up to $80 million; Date Closed: September 30, 2015. PSPRS Asset class: Absolute Return.
   c. Tritium I, LP Fund; Committed Amount up to $20 million direct; Date Closed: November 16, 2015. PSPRS Asset class: Private Equity.
   d. TSG 7A & 7B Fund; Committed Amount up to $40 million (TSG 7A) and $10 million (TSG 7B); Date Closed: November 16, 2015. PSPRS Asset class: Private Equity.
   e. Pinebridge Structured Capital III Fund; Committed Amount up to $80 million; Date Closed: November 25, 2015. PSPRS Asset class: Credit Opportunities.
   f. Lubert-Adler Laramar Urban Neighborhood Fund; Committed Amount up to $40 million; Date Closed: December 30, 2015. PSPRS Asset class: Real Estate.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 13. through 22., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, January 20, 2016, on or after 11:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

13. Presentation of the Month-to-Date Budget Report for FY 2016 and possible Action on same.
   
   Mr. John Hendricks
   Manager of Finance and Accounting

   We are 2.41% under budget due to four vacant positions.

14. Discussion and Action regarding the creation of a new Investment Analyst Position.
   
   Mr. Mark Steed
   Deputy CIO and Chief of Staff

   This item has been tabled for one month.

15. Update and discussion on the status of building space and tenant lease.
   
   Mr. Jared A. Smout

   Due to our growing need for more office space, our downstairs tenant has been told their lease, which expires in September, 2017, will not be renewed in order for PSPRS to utilize the additional space.

   
   Ms. Bridget Feeley

   Discussion was held regarding same.

17. Summary Update – Business Continuity Plan
   
   Mr. Sam Meier
   IT Operations Manager
Due to the security of IT procedures, the details were not discussed, but there is a plan in place with which we are comfortable. Chairman Tobin suggested use of fire drills regarding breaches by cyberattacks in order to practice the written plans.

18. 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  

   A written report was provided with the monthly material, for which there were no questions.

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

   Mr. Jared A. Smout

   There are 10 requests for local board rehearings.

20. Review and discussion regarding law firms' billings for legal services performed in October, November and December, 2015.

   Mr. Jared A. Smout

   The Operations, Governance Policy and Audit Committee approved payment of the law firms' billings for legal services. The following amounts were approved: October – $102,212.52; November $95,966.48; December- $94,221.81.

21. Update and discussion on the progress of implementing the Auditor General recommendations as agreed to in their Performance Audit and Sunset Review.

   Mr. Jared A. Smout

   The matrix, which includes the status of recommended implementations, was included with the information for the board members.

22. Review, discussion and possible Action on potential legislative proposals for the 2016 legislative session including items for a possible administrative amendments bill.

   Mr. Jared A. Smout

   Mr. Doug Cole and Ms. Dianne McAllister of Public Policy Partners summarized 2016 proposed legislation applicable to PSPRS. Regarding pension reform, the goal is to have the proposed plan included on the May 17, 2016 ballot. Meetings are being held on pension reform with stakeholders, local boards, judges associations, and others. The Administrative Bill is being worked on with Representative Olson, in charge of pension in the House, and by Senator Lesko in the Senate. Also being worked on are proposed legislative changes in redemption of prior service regarding the discount rate in order to be more actuarially sound for CORP, EORP and PSPRS and changes in the fire district local boards to clarify language.
Chairman Tobin informed the Board that regarding pension reform there is no specific proposed bill language yet to read and asked the Board to focus on this item since it requires the vote of the public. The deadline to get something on the ballot is February 14, 2016 for changes to the Pension Benefit Increase (PBI) structure for retirees. A proposed change to the actual cost of living adjustment is to base it on regional Consumer Price Index (CPI) with a cap of 2%. The chairman asked if the Board wanted to take a position on the matrix box #1 in Senator Lesko’s Pension Reform Grid. Mr. McHenry stated he would like to see something more concrete in order to know what the PBI does to our ability to earn our way out of unfunded liability in conjunction with information from the actuaries. He added we are talking about the concept since the specific language is not yet formed.

<table>
<thead>
<tr>
<th>MOTION: 4-1/20/16</th>
<th>Motion: At 2:12 p.m. To support the proposed ballot measure item # 1 in Matrix of Senator Lesko’s Pension Reform Grid. This is a proposed change to the Actual Cost of Living Adjustment based on the Consumer Price Index (CPI) with a cap of 2%.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amended Motion:</td>
<td>Mr. Ferguson amended the motion and will support the concept of supporting the ballot measure as listed on the Matrix.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Davis</td>
</tr>
<tr>
<td>Discussion:</td>
<td>Mr. McHenry stated he has a problem with the ballot measure, but will support the concept. Mr. Ferguson withdrew the motion due to Mr. McHenry’s statement and will support the concept of supporting the ballot measure as listed on the Matrix.</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous – Mr. Kingry - Excused</td>
</tr>
<tr>
<td>Motion: Passes</td>
<td></td>
</tr>
</tbody>
</table>


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Mr. Corey Arvizu  
Managing Partner  
Mr. Christopher Heinfeld  
Audit Manager  
Heinfeld, Meech & Co., P.C
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Mr. Arvizu reported a lot of changes have occurred since last year as to how information is reported to the employers. This year staff prepared four additional statements, the Auditor General worked with the Plans and all plans are now combined into a single financial statement which includes the detailed report of each plan, but in one single set of documents.

Mr. Heinfeld stated there are additional schedules and audits. He described the 2014 review as related to GASB Statement No. 68, the 2015 audit procedures leading to financial statements and the combined report. No findings were noted, there were minor changes and edits, and there was no disagreement with management. An additional report for FFCIP will be completed shortly.
24. 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.

25. 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 26.

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

<table>
<thead>
<tr>
<th>MOTION:5-1/20/16</th>
<th>At 4:01 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>Move to approve Executive Session for Agenda Item 25.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Petrenka</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Davis</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous – Mr. Kingry - Excused</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

27. Schedule future meeting date(s). (*Currently scheduled for Wednesday, February 24, 2016.*)

   The next meeting will be held on Wednesday, February 24, 2016.

28. Adjournment.

   The meeting was adjourned at 4:10 p.m.
Public Safety Personnel Retirement Systems

Compliance Report as of December 31, 2015

Portfolio Compliance:

We reviewed the PSPRS portfolio as of December 31, 2015 for compliance with the Amended and Restated Statement of Investment Policies (Investment Policies) as adopted by the Board of Trustees.

The portfolio is in compliance with the Investment Policies.

___________________
Bridget Feeley, Internal Audit and Compliance Officer
PSPRS Trust Portfolio Risk as of December 31, 2015.

Agenda:

- Market overview
- PSPRS portfolio in current market conditions.
- Current realized and forecasted levels of PSPRS Trust portfolio risk.
  - Volatility and Value At Risk (VAR).
  - Comparison with historical levels.
  - Risk contributions of all asset classes to total portfolio risk.
  - Exposures to major market factors
    …on both sub-portfolio and global Trust levels.
- Stress test results
- Conclusions
December: -0.95%
Benchmark: -0.79%

Current Market Conditions

• Moderate US Growth:
  • The annualized 4Q GDP growth rate was only 0.7% compared to 2.0% in the 3Q and 3.9% in the 2Q
  • Downturn in business fixed investment
  • Falling oil-related investment
  • Weak export and strong dollar

• Negative interest rate (-0.1%) in Japan:
  • “No limit” to monetary easing said by the Bank of Japan governor, Haruhiko Kuroda
  • More room to ease to reach the goal of 2% inflation

• Gradual slowdown in China:
  • Contracted imports and exports
  • Weaker investment and manufacturing activity

Will the Fed still move forward with the four interest rate hikes?
Based on current holdings (12/31/15).

**PSPRS volatility and Value at Risk (VAR*)**:

- PSPRS Trust global historic volatility remained constant at 1.1% per month although most of sub-portfolios volatility increased slightly (10bps).
- PSPRS Trust monthly volatility forecast (1.9%) is lower than last month (2.0%), and monthly VAR forecast stays the same.

* Definition of 95% monthly VAR (used here): The maximum amount that could be lost over any one month period, with 95% confidence (in other words, with the exception of one month in 20, in which that maximum amount would be exceeded).

---

**PSPRS TRUST December, 2015**

<table>
<thead>
<tr>
<th>PSPRS TRUST</th>
<th>Portfolio Weight</th>
<th>Historic Volatility*</th>
<th>Monthly Volatility (Forecast)</th>
<th>Monthly VAR Forecast (95% Confidence)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>10.6%</td>
<td>1.3%</td>
<td>2.9%</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15.1%</td>
<td>1.6%</td>
<td>4.7%</td>
<td>-7.9%</td>
</tr>
<tr>
<td>US Equities</td>
<td>15.7%</td>
<td>3.5%</td>
<td>3.7%</td>
<td>-6.9%</td>
</tr>
<tr>
<td>International Equities</td>
<td>13.8%</td>
<td>3.7%</td>
<td>4.0%</td>
<td>-7.4%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>4.3%</td>
<td>1.1%</td>
<td>1.7%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>3.6%</td>
<td>1.9%</td>
<td>2.4%</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>8.6%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>-4.6%</td>
</tr>
<tr>
<td>GTAA</td>
<td>9.5%</td>
<td>2.2%</td>
<td>2.3%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>7.2%</td>
<td>0.7%</td>
<td>1.0%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Credit Opportunities</td>
<td>9.8%</td>
<td>0.7%</td>
<td>1.4%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>PSPRS Trust</td>
<td>98.1%</td>
<td>1.1%**</td>
<td>1.9%</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

* For comparison, the monthly volatility of the S&P 500 over the past ten years has been 4.2% per month, or 14.5% per year.
* All risk values reported as monthly risk based on the past year of returns.
** For comparison, a volatility of 1.0% per month, corresponds to 3.5% per year.
Volatility Comparison

• 12-Month Trailing Volatility

PSPRS Volatility VS. Market Volatility

• PSPRS Trust global is 73% less volatile than the market.
Where does it come from? PSPRS sub-portfolio contributions to Global Trust Value At Risk (VAR):

**VAR portfolio contributions:**
- Some relative small shifting in marginal VAR contributions compared to the last report
- Equity risk is the highest contributor to VAR (64%), which is the same as the last report.
Notable Drivers of Sub-portfolios

Style analysis of the PSPRS asset classes

- Modern Portfolio Theory (MPT) has focused on pervasive, or “systematic” influences as a major source of investment risk.

<table>
<thead>
<tr>
<th>PSPRS Portfolio</th>
<th>Portfolio Weight</th>
<th>Primary Driver</th>
<th>Secondary Driver</th>
<th>Fraction Explained</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equities</td>
<td>15.7%</td>
<td>S&amp;P 500</td>
<td>Russell 2000 (small caps)</td>
<td>63%</td>
</tr>
<tr>
<td>International Equities</td>
<td>13.8%</td>
<td>MSCI World</td>
<td>Inflation (CPI)</td>
<td>91%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10.6%</td>
<td>US 10y T-Note</td>
<td>Treasury Spread (10Y-3M)</td>
<td>47%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15.1%</td>
<td>MSCI North America</td>
<td>S&amp;P 500</td>
<td>85%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>7.2%</td>
<td>Change in US 10Y T-Note</td>
<td>Change in US 1Y T-Note</td>
<td>39%</td>
</tr>
<tr>
<td>Credit Opportunities</td>
<td>9.8%</td>
<td>Russell 2000 (small caps)</td>
<td>Inflation (CPI)</td>
<td>75%</td>
</tr>
<tr>
<td>GTAA</td>
<td>9.5%</td>
<td>--</td>
<td>--</td>
<td>-</td>
</tr>
<tr>
<td>Real Assets</td>
<td>8.6%</td>
<td>Oil</td>
<td>Russell 2000 (small caps)</td>
<td>37%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>4.3%</td>
<td>--</td>
<td>--</td>
<td>-</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>3.6%</td>
<td>--</td>
<td>--</td>
<td>-</td>
</tr>
</tbody>
</table>

*Values in yellow/red indicate an inverse relation.

- **No major changes since last report.**

We note the significant conclusion that our inability to model GTAA, Absolute Return and Risk Parity portfolios - using fundamental market or economic factors - is an indication of successful design and implementation of these investment portfolios.
Notable Drivers of Global PSPRS Trust

- As with past months, risk modeling indicates that the PSPRS global portfolio is subject – in part – to two main drivers (explaining 87% of variance, or market risk):
  - North American equity markets
  - Change in 5 year bond prices.
- We report the (all other things being equal) results of stress tests on these drivers in order to gauge our exposure to them.

<table>
<thead>
<tr>
<th>Market Factor Change</th>
<th>Portfolio Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI North America-5 std</td>
<td>-9.7%</td>
</tr>
<tr>
<td>MSCI North America-3 std</td>
<td>-5.8%</td>
</tr>
<tr>
<td>MSCI North America-2 std</td>
<td>-3.9%</td>
</tr>
<tr>
<td>MSCI North America-1 std</td>
<td>-2.0%</td>
</tr>
<tr>
<td>MSCI North America+1 std</td>
<td>3.8%</td>
</tr>
<tr>
<td>MSCI North America+2 std</td>
<td>5.7%</td>
</tr>
<tr>
<td>MSCI North America+3 std</td>
<td>7.6%</td>
</tr>
<tr>
<td>MSCI North America+5 std</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Factor Change</th>
<th>Portfolio Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>US 5y T-Note-5 std</td>
<td>1.0%</td>
</tr>
<tr>
<td>US 5y T-Note-3 std</td>
<td>1.3%</td>
</tr>
<tr>
<td>US 5y T-Note-2 std</td>
<td>1.4%</td>
</tr>
<tr>
<td>US 5y T-Note-1 std</td>
<td>1.6%</td>
</tr>
<tr>
<td>US 5y T-Note+1 std</td>
<td>2.0%</td>
</tr>
<tr>
<td>US 5y T-Note+2 std</td>
<td>2.2%</td>
</tr>
<tr>
<td>US 5y T-Note+3 std</td>
<td>2.3%</td>
</tr>
<tr>
<td>US 5y T-Note+5 std</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

- Globally – Our exposure to extreme (as measured by Value At Risk) equity events remains positively asymmetric.
- We expect to gain more from a positive movement than we would lose after a similarly sized negative movement.
Worst Case Scenarios – Lessons from the Past

- Stress testing: The style analysis model of our current holdings can be subjected to stress scenarios.

<table>
<thead>
<tr>
<th>Events</th>
<th>Today's Portfolio</th>
<th>PSPRS Trust Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Crisis of 1997</td>
<td>3.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Russian/LTCM Crisis 1998</td>
<td>-3.7%</td>
<td>-5.5%</td>
</tr>
<tr>
<td>WTC Attacks - Sept. 11</td>
<td>-3.0%</td>
<td>-11.7%</td>
</tr>
<tr>
<td>Stock Market Crash 2002</td>
<td>-4.7%</td>
<td>-21.1%</td>
</tr>
<tr>
<td>August Crisis 2007</td>
<td>1.2%</td>
<td>1.6%</td>
</tr>
<tr>
<td>January Crisis 2008</td>
<td>-2.4%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Credit Crunch 2008 (Aug to Nov)</td>
<td>-15.3%</td>
<td>-23.1%</td>
</tr>
<tr>
<td>Crisis 2009 (Jan-Feb)</td>
<td>-4.3%</td>
<td>-12.9%</td>
</tr>
<tr>
<td>Flash Crash 2010</td>
<td>-3.6%</td>
<td>-3.7%</td>
</tr>
</tbody>
</table>

- Today’s portfolio will only down 4.3% in the 2009 crisis compared to previous months (-8.0%).

- Downside potential losses of today’s portfolio have decreased significantly compared to the actual PSPRS Trust portfolio.
Conclusions

- PSPRS Trust portfolio is more than 2/3 less volatile than the market.
- The monthly forecasted volatility and VAR (95% confidence) of the Trust portfolio are little changed with respect to previous months, which is in line with our expectation. This also indicates that the global Trust portfolio is well-constructed to manage the market volatility.

- In addition to the PSPRS Trust being:
  - Top decile on risk-terms since 2009.
  - Top quartile in efficiency (Sharpe Ratio) terms since 2010.

- The global PSPRS Trust portfolio is now top-quartile in return performance terms since July of 2014.
# Arizona PSPRS Trust - Performance as of 12/31/2015 (Gross of Fees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Asset Allocation</th>
<th>7/1/2015</th>
<th></th>
<th></th>
<th>Performance %</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Values ($)</td>
<td>Target (%)</td>
<td>Range (%)</td>
<td>Month Ending</td>
<td>3 Month Ending</td>
<td>Fiscal YTD</td>
<td>Calendar YTD</td>
<td>1 Year</td>
<td>3 Years</td>
<td>5 Years</td>
<td>10 Years</td>
</tr>
<tr>
<td>Arizona PSPRS Trust - Total Fund</td>
<td>$8,292,399,153</td>
<td>100.00%</td>
<td>-0.95%</td>
<td>1.49%</td>
<td>-0.86%</td>
<td>2.65%</td>
<td>2.65%</td>
<td>7.34%</td>
<td>6.43%</td>
<td>4.69%</td>
<td></td>
</tr>
<tr>
<td>Target Fund Benchmark</td>
<td></td>
<td></td>
<td>-0.79%</td>
<td>2.50%</td>
<td>-1.21%</td>
<td>1.01%</td>
<td>1.01%</td>
<td>6.30%</td>
<td>6.42%</td>
<td>4.04%</td>
<td></td>
</tr>
<tr>
<td>Total Equity</td>
<td>$2,446,783,554</td>
<td>29.51%</td>
<td>21-39%</td>
<td>-2.16%</td>
<td>3.92%</td>
<td>-5.31%</td>
<td>-2.36%</td>
<td>-2.36%</td>
<td>8.11%</td>
<td>6.37%</td>
<td>4.87%</td>
</tr>
<tr>
<td>Target Equity Benchmark</td>
<td></td>
<td></td>
<td>-1.97%</td>
<td>4.86%</td>
<td>-5.18%</td>
<td>-2.37%</td>
<td>-2.37%</td>
<td>8.59%</td>
<td>7.16%</td>
<td>5.42%</td>
<td></td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>$1,305,610,896</td>
<td>15.74%</td>
<td>16%</td>
<td>11-21%</td>
<td>-2.61%</td>
<td>4.54%</td>
<td>-2.92%</td>
<td>-0.68%</td>
<td>-0.68%</td>
<td>13.12%</td>
<td>10.25%</td>
</tr>
<tr>
<td>Russell 3000</td>
<td></td>
<td></td>
<td>-2.05%</td>
<td>6.27%</td>
<td>-1.43%</td>
<td>0.48%</td>
<td>0.48%</td>
<td>14.74%</td>
<td>12.18%</td>
<td>7.35%</td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>$1,141,172,658</td>
<td>13.76%</td>
<td>14%</td>
<td>10-18%</td>
<td>-1.63%</td>
<td>3.17%</td>
<td>-8.05%</td>
<td>-4.27%</td>
<td>-4.27%</td>
<td>2.17%</td>
<td>1.41%</td>
</tr>
<tr>
<td>MSCI ACWI Ex-US Net</td>
<td></td>
<td></td>
<td>-1.88%</td>
<td>3.24%</td>
<td>-9.32%</td>
<td>-5.66%</td>
<td>-5.66%</td>
<td>1.50%</td>
<td>1.06%</td>
<td>2.92%</td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>$1,255,520,396</td>
<td>15.14%</td>
<td>11%</td>
<td>7-17%</td>
<td>-0.30%</td>
<td>3.21%</td>
<td>6.89%</td>
<td>18.66%</td>
<td>18.66%</td>
<td>19.23%</td>
<td>15.77%</td>
</tr>
<tr>
<td>Russell 3000 + 100 bps</td>
<td></td>
<td></td>
<td>-1.96%</td>
<td>6.43%</td>
<td>-0.94%</td>
<td>1.48%</td>
<td>1.48%</td>
<td>15.74%</td>
<td>13.18%</td>
<td>9.35%</td>
<td></td>
</tr>
<tr>
<td>Fixed Income</td>
<td>$594,391,442</td>
<td>7.17%</td>
<td>7%</td>
<td>3-11%</td>
<td>-0.94%</td>
<td>-0.27%</td>
<td>-0.17%</td>
<td>0.82%</td>
<td>0.82%</td>
<td>2.00%</td>
<td>3.90%</td>
</tr>
<tr>
<td>BC Global Aggregate</td>
<td></td>
<td></td>
<td>0.53%</td>
<td>-0.92%</td>
<td>-0.08%</td>
<td>-3.15%</td>
<td>-3.15%</td>
<td>-1.74%</td>
<td>-0.90%</td>
<td>3.74%</td>
<td></td>
</tr>
<tr>
<td>Credit Opportunities</td>
<td>$811,446,245</td>
<td>9.79%</td>
<td>13%</td>
<td>7-16%</td>
<td>1.54%</td>
<td>1.56%</td>
<td>2.87%</td>
<td>4.81%</td>
<td>4.81%</td>
<td>8.96%</td>
<td>8.08%</td>
</tr>
<tr>
<td>50% BofA ML US High Yield BB-B Constrained, 50% CSFB Fixed Income Arbitrage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absolute Return</td>
<td>$356,405,343</td>
<td>4.30%</td>
<td>5%</td>
<td>0-9%</td>
<td>-0.78%</td>
<td>-0.58%</td>
<td>-3.84%</td>
<td>0.66%</td>
<td>0.66%</td>
<td>7.56%</td>
<td>7.81%</td>
</tr>
<tr>
<td>BofA ML 3-Month T-Bill + 200 bps</td>
<td></td>
<td></td>
<td>0.19%</td>
<td>0.52%</td>
<td>1.03%</td>
<td>2.05%</td>
<td>2.05%</td>
<td>2.05%</td>
<td>2.08%</td>
<td>3.24%</td>
<td></td>
</tr>
<tr>
<td>GTAA</td>
<td>$786,825,548</td>
<td>9.49%</td>
<td>10%</td>
<td>6-14%</td>
<td>-2.11%</td>
<td>0.36%</td>
<td>-1.87%</td>
<td>2.95%</td>
<td>2.95%</td>
<td>3.57%</td>
<td>4.67%</td>
</tr>
<tr>
<td>3-Month LIBOR + 300 bps</td>
<td></td>
<td></td>
<td>0.27%</td>
<td>0.81%</td>
<td>1.63%</td>
<td>3.30%</td>
<td>3.30%</td>
<td>3.26%</td>
<td>3.31%</td>
<td>4.60%</td>
<td></td>
</tr>
<tr>
<td>Real Assets</td>
<td>$709,265,547</td>
<td>8.55%</td>
<td>8%</td>
<td>5-11%</td>
<td>-0.86%</td>
<td>-2.29%</td>
<td>-3.55%</td>
<td>-3.88%</td>
<td>-3.88%</td>
<td>0.83%</td>
<td>2.31%</td>
</tr>
<tr>
<td>CPI + 200 bps</td>
<td></td>
<td></td>
<td>0.04%</td>
<td>0.54%</td>
<td>0.86%</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.94%</td>
<td>3.51%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>$879,757,238</td>
<td>10.61%</td>
<td>10%</td>
<td>5-15%</td>
<td>0.57%</td>
<td>0.14%</td>
<td>3.60%</td>
<td>4.93%</td>
<td>4.93%</td>
<td>5.31%</td>
<td>3.18%</td>
</tr>
<tr>
<td>NCREIF NPI *</td>
<td></td>
<td></td>
<td>0.96%</td>
<td>2.91%</td>
<td>6.09%</td>
<td>13.33%</td>
<td>13.33%</td>
<td>12.04%</td>
<td>12.18%</td>
<td>7.76%</td>
<td></td>
</tr>
<tr>
<td>Risk Parity</td>
<td>$295,916,014</td>
<td>3.57%</td>
<td>4%</td>
<td>0-8%</td>
<td>-2.54%</td>
<td>-1.83%</td>
<td>-5.76%</td>
<td>-5.13%</td>
<td>-5.13%</td>
<td>-0.79%</td>
<td>N/A</td>
</tr>
<tr>
<td>60% BC Global Aggregate, 30% MSCI AC World Net, 10% Bloomberg Commodity Index TR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term Investments</td>
<td>$156,087,826</td>
<td>1.88%</td>
<td>2%</td>
<td>0-6%</td>
<td>0.02%</td>
<td>0.06%</td>
<td>0.25%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.28%</td>
<td>0.09%</td>
</tr>
<tr>
<td>BofA ML 3-Month T-Bill</td>
<td></td>
<td></td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.04%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.08%</td>
<td>1.24%</td>
<td></td>
</tr>
</tbody>
</table>

Please see Page 2 for additional notes regarding the benchmarks and effective dates.
**Target Fund Benchmarks (Effective Dates)**

July 1, 2015 to Present: 16% Russell 3000, 14% MSCI World Ex-US Net, 11% Russell 5000 + 100 bps, 7% BC Global Aggregate, 13% Credit Opportunities Benchmark, 5% BoFA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BoFA ML 3-Month T-Bill

July 1, 2014 to Present: 16% Russell 3000, 14% MSCI World Ex-US Net, 11% Russell 5000 + 100 bps, 7% BC Global Aggregate, 13% Credit Opportunities Benchmark, 4% BoFA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 11% NCREIF NPI, 4% Risk Parity Benchmark and 2% BoFA ML 3-Month T-Bill

July 1, 2013 June 30, 2014: 17% Russell 3000, 14% MSCI ACWI Ex-US Net, 10% Russell 3000 + 100 bps, 8% BC Global Aggregate, 12% Credit Opportunities Benchmark, 4% BoFA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 11% NCREIF NPI, 4% Risk Parity Benchmark and 2% BoFA ML 3-Month T-Bill

July 1, 2012 June 30, 2013: 18% Russell 3000, 14% MSCI World Ex-US Net, 11% Russell 5000 + 100 bps, 7% BC Global Aggregate, 13% Credit Opportunities Benchmark, 4% BoFA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 11% NCREIF NPI, 4% Risk Parity Benchmark and 2% BoFA ML 3-Month T-Bill

July 1, 2010 June 30, 2012: 20% Russell 3000, 15% MSCI World Ex-US Net, 9% Russell 5000 + 100 bps, 12% BC Global Aggregate, 12% Credit Opportunities Benchmark, 4% BoFA ML 3-Month T-Bill + 200 bps, 8% 3-Month LIBOR + 300 bps, 7% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BoFA ML 3-Month T-Bill

July 1, 2009 June 30, 2010: 30% Russell 3000, 20% MSCI World Ex-US Net, 20% BC US Aggregate, 8% NCREIF NPI, 8% Russell 5000 + 300 bps and 1% BoFA ML 3-Month T-Bill

July 1, 2007 March 31, 2009: 46% Wilshire 5000, 21% MSCI World Ex-US Net, 20% BC Gov/Cred, 6% NCREIF NPI, 6% Wilshire 5000 + 300 bps and 1% BoFA ML 3-Month T-Bill

July 1, 2006 June 30, 2007: 50% S&P 500, 10% S&P 400, 5% S&P 600, 20% BC Gov/Cred, 10% Expected Annual Return for Real Estate of 8.00% and 5% BoFA ML 3-Month T-Bill

July 1, 2002 June 30, 2006: 45% S&P 500, 45% BC Gov/Cred and 10% BoFA ML 3-Month T-Bill

* The NCREIF NPI index return is published on a quarterly basis approximately six weeks after the end of the quarter and will be updated as soon as it is available. The monthly returns shown above are based on geometric smoothing of the quarterly data.

**Target Equity Benchmarks (Effective Dates)**

July 1, 2014 to Present: 55.33% Russell 3000 and 46.67% MSCI World Ex-US Net

July 1, 2013 to June 30, 2014: 54.84% Russell 3000 and 45.16% MSCI ACWI Ex-US Net

July 1, 2012 to June 30, 2013: 56.25% Russell 3000 and 43.75% MSCI World Ex-US Net

July 1, 2010 to June 30, 2012: 57.14% Russell 3000 and 42.86% MSCI World Ex-US Net

April 1, 2009 to June 30, 2010: 60% Russell 3000 and 40% MSCI World Ex-US Net

July 1, 2007 to March 31, 2009: 67.69% Wilshire 5000 and 32.31% MSCI World Ex-US Net

July 1, 2006 to June 30, 2007: 76.92% S&P 500, 15.39% S&P 400 and 7.69% S&P 600

July 1, 2002 to June 30, 2006: 100% S&P 500

Page 2 of 3
Arizona PSPRS Trust - Historical Calendar Year Performance as of 12/31/2015 (Gross of Fees)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona PSPRS Trust - Total Fund</td>
<td>2.65%</td>
<td>6.37%</td>
<td>13.26%</td>
<td>9.38%</td>
<td>0.96%</td>
<td>10.35%</td>
<td>19.02%</td>
<td>-26.62%</td>
<td>9.32%</td>
<td>9.95%</td>
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<tr>
<td>Target Fund Benchmark</td>
<td>1.01%</td>
<td>5.36%</td>
<td>12.85%</td>
<td>11.11%</td>
<td>2.26%</td>
<td>9.55%</td>
<td>19.49%</td>
<td>-29.57%</td>
<td>7.62%</td>
<td>9.79%</td>
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</table>
## Supplemental Cancer Insurance Plan (CIP) - Performance as of 12/31/2015 (Net of Fees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Asset Allocation</th>
<th>Target (%)</th>
<th>Performance %</th>
<th>Month Ending</th>
<th>3 Month Ending</th>
<th>Fiscal YTD</th>
<th>Calendar YTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIP - Total Fund</td>
<td>$22,424,101</td>
<td>100.00%</td>
<td></td>
<td>-1.25%</td>
<td>2.17%</td>
<td>-2.51%</td>
<td>-1.12%</td>
<td>-1.12%</td>
<td>5.54%</td>
<td>5.47%</td>
<td>5.32%</td>
</tr>
<tr>
<td>Target Fund Benchmark</td>
<td></td>
<td></td>
<td></td>
<td>-0.92%</td>
<td>1.82%</td>
<td>-3.27%</td>
<td>-2.65%</td>
<td>-2.65%</td>
<td>3.98%</td>
<td>4.43%</td>
<td>4.20%</td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>$5,579,529</td>
<td>24.88%</td>
<td>25%</td>
<td>-2.13%</td>
<td>6.21%</td>
<td>-1.60%</td>
<td>0.20%</td>
<td>0.20%</td>
<td>14.40%</td>
<td>11.91%</td>
<td>N/A</td>
</tr>
<tr>
<td>Russell 3000</td>
<td></td>
<td></td>
<td></td>
<td>-2.05%</td>
<td>6.27%</td>
<td>-1.43%</td>
<td>0.48%</td>
<td>0.48%</td>
<td>14.74%</td>
<td>12.18%</td>
<td>7.35%</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>$5,214,879</td>
<td>23.26%</td>
<td>25%</td>
<td>-2.22%</td>
<td>2.47%</td>
<td>-9.12%</td>
<td>-4.21%</td>
<td>-4.21%</td>
<td>1.19%</td>
<td>1.06%</td>
<td>N/A</td>
</tr>
<tr>
<td>MSCI ACWI Ex-US Net</td>
<td></td>
<td></td>
<td></td>
<td>-1.88%</td>
<td>3.24%</td>
<td>-9.32%</td>
<td>-5.66%</td>
<td>-5.66%</td>
<td>1.50%</td>
<td>1.06%</td>
<td>2.92%</td>
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<tr>
<td>Fixed Income</td>
<td>$6,881,720</td>
<td>30.69%</td>
<td>30%</td>
<td>-0.16%</td>
<td>-0.02%</td>
<td>1.40%</td>
<td>0.81%</td>
<td>0.81%</td>
<td>1.17%</td>
<td>3.23%</td>
<td>N/A</td>
</tr>
<tr>
<td>Barclays Global Aggregate Index</td>
<td></td>
<td></td>
<td></td>
<td>0.53%</td>
<td>-0.92%</td>
<td>-0.08%</td>
<td>-3.15%</td>
<td>-3.15%</td>
<td>-1.74%</td>
<td>0.90%</td>
<td>3.74%</td>
</tr>
<tr>
<td>Inflation-Linked Securities</td>
<td>$1,111,622</td>
<td>4.96%</td>
<td>10%</td>
<td>-1.01%</td>
<td>-0.85%</td>
<td>-1.78%</td>
<td>-1.74%</td>
<td>-1.74%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Barclays U.S. TIPS Index</td>
<td></td>
<td></td>
<td></td>
<td>-0.79%</td>
<td>-0.64%</td>
<td>-1.78%</td>
<td>-1.44%</td>
<td>-1.44%</td>
<td>-2.27%</td>
<td>2.55%</td>
<td>3.93%</td>
</tr>
<tr>
<td>Commodities</td>
<td>$2,263,137</td>
<td>10.09%</td>
<td>5%</td>
<td>-0.75%</td>
<td>3.50%</td>
<td>-2.93%</td>
<td>-7.79%</td>
<td>-7.79%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>SPDR® Gold Trust Index (GLD)</td>
<td></td>
<td></td>
<td></td>
<td>-0.45%</td>
<td>-5.05%</td>
<td>-9.71%</td>
<td>-10.67%</td>
<td>-10.67%</td>
<td>-14.45%</td>
<td>-6.06%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Short Term Investments</td>
<td>$1,373,214</td>
<td>6.12%</td>
<td>5%</td>
<td>0.01%</td>
<td>0.02%</td>
<td>0.03%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.06%</td>
<td>N/A</td>
</tr>
<tr>
<td>BofA ML 3-Month T-Bill</td>
<td></td>
<td></td>
<td></td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.04%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.08%</td>
<td>1.24%</td>
</tr>
</tbody>
</table>

**Target Fund Benchmarks (Effective Dates):**

July 1, 2014 to Present: 25% Russell 3000, 25% MSCI ACWI Ex-US Net, 30% BC Global Aggregate, 10% Barclays U.S. TIPS, 5% GLD Index, 5% BofA ML 3-Month T-Bill.

July 1, 2009 - June 30, 2014: 30% Russell 3000, 30% MSCI ACWI Ex-US Net, 35% BC Aggregate, 5% BofA ML 3-Month T-Bill.

July 1, 2005 - June 30, 2009: 40% Russell 3000, 35% BC Aggregate, 5% BofA ML 3-Month T-Bill.
## Supplemental Cancer Insurance Plan (CIP) - Historical Calendar Year Performance as of 12/31/2015 (Net of Fees)

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Performance %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CIP - Total Fund</strong></td>
<td>-1.12%</td>
</tr>
<tr>
<td><strong>Target Fund Benchmark</strong></td>
<td>-2.65%</td>
</tr>
</tbody>
</table>
The Firefighter and Peace Officer Cancer Insurance Plan

Investment Summary
Quarter Ending December 31, 2015
Allan Martin, Partner
Don Stracke, CFA, CAIA, Senior Consultant
Tony Ferrara, CAIA, Senior Analyst
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Performance Summary

<table>
<thead>
<tr>
<th></th>
<th>Market Value</th>
<th>3 Mo</th>
<th>Rank</th>
<th>Fiscal YTD</th>
<th>1 Yr</th>
<th>Rank</th>
<th>3 Yrs</th>
<th>Rank</th>
<th>5 Yrs</th>
<th>Rank</th>
<th>10 Yrs</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Composite</td>
<td>$22,424,101</td>
<td>2.2%</td>
<td>82</td>
<td>-2.5%</td>
<td>60</td>
<td>-1.1%</td>
<td>73</td>
<td>5.5%</td>
<td>76</td>
<td>5.5%</td>
<td>77</td>
<td>5.3%</td>
</tr>
<tr>
<td>Policy Index</td>
<td>1.6%</td>
<td>91</td>
<td>-3.4%</td>
<td>83</td>
<td>98</td>
<td>2.8%</td>
<td>98</td>
<td>3.9%</td>
<td>95</td>
<td>4.4%</td>
<td>98</td>
<td>4.2%</td>
</tr>
<tr>
<td>Allocation Index</td>
<td>2.2%</td>
<td>81</td>
<td>-2.8%</td>
<td>69</td>
<td>88</td>
<td>2.3%</td>
<td>88</td>
<td>4.3%</td>
<td>93</td>
<td>4.5%</td>
<td>98</td>
<td>4.5%</td>
</tr>
<tr>
<td>InvestorForce Public DB &lt; $50mm Net Median</td>
<td>2.8%</td>
<td>-2.3%</td>
<td>-0.3%</td>
<td>7.0%</td>
<td>6.2%</td>
<td>5.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Performance returns are reported net of fees.
*Fiscal year ends June 30.

*Policy Index: 25% Russell 3000, 25% MSCI ACWI ex US, 30% BC Aggregate, 10% US TIPs, 5% Bloomberg Commodity Index, 5% Cash

---

3 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th></th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Sharpe Ratio</th>
<th>Rank</th>
<th>Sortino Ratio RF</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Composite</td>
<td>5.54%</td>
<td>76</td>
<td>6.65%</td>
<td>57</td>
<td>0.83</td>
<td>82</td>
<td>1.63</td>
<td>70</td>
</tr>
<tr>
<td>Policy Index</td>
<td>3.92%</td>
<td>95</td>
<td>6.45%</td>
<td>50</td>
<td>0.60</td>
<td>99</td>
<td>1.26</td>
<td>91</td>
</tr>
<tr>
<td>Allocation Index</td>
<td>4.34%</td>
<td>93</td>
<td>6.59%</td>
<td>56</td>
<td>0.65</td>
<td>98</td>
<td>1.33</td>
<td>83</td>
</tr>
<tr>
<td>InvestorForce Public DB &lt; $50mm Net Median</td>
<td>6.99%</td>
<td>--</td>
<td>6.46%</td>
<td>--</td>
<td>1.05</td>
<td>--</td>
<td>1.99</td>
<td>--</td>
</tr>
</tbody>
</table>

5 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th></th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Sharpe Ratio</th>
<th>Rank</th>
<th>Sortino Ratio RF</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Composite</td>
<td>5.47%</td>
<td>77</td>
<td>7.74%</td>
<td>59</td>
<td>0.70</td>
<td>77</td>
<td>1.03</td>
<td>76</td>
</tr>
<tr>
<td>Policy Index</td>
<td>4.39%</td>
<td>98</td>
<td>7.67%</td>
<td>57</td>
<td>0.57</td>
<td>96</td>
<td>0.87</td>
<td>83</td>
</tr>
<tr>
<td>Allocation Index</td>
<td>4.55%</td>
<td>98</td>
<td>7.93%</td>
<td>65</td>
<td>0.57</td>
<td>96</td>
<td>0.85</td>
<td>83</td>
</tr>
<tr>
<td>InvestorForce Public DB &lt; $50mm Net Median</td>
<td>6.24%</td>
<td>--</td>
<td>7.47%</td>
<td>--</td>
<td>0.91</td>
<td>--</td>
<td>1.41</td>
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</tbody>
</table>
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Risk/Return

### 1 Year Ending December 31, 2015

<table>
<thead>
<tr>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Anlzd AJ</th>
<th>Rank</th>
<th>Sharpe Ratio</th>
<th>Rank</th>
<th>Sortino Ratio RF</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Composite</td>
<td>100.00%</td>
<td>-1.12%</td>
<td>73</td>
<td>6.90%</td>
<td>33</td>
<td>1.69%</td>
<td>1</td>
<td>-0.17</td>
<td>73</td>
<td>-0.27</td>
<td>73</td>
<td>1.40%</td>
</tr>
<tr>
<td>Policy Index</td>
<td>--</td>
<td>-2.83%</td>
<td>98</td>
<td>6.78%</td>
<td>27</td>
<td>0.00%</td>
<td>49</td>
<td>-0.42</td>
<td>98</td>
<td>-0.85</td>
<td>99</td>
<td>0.00%</td>
</tr>
<tr>
<td>Allocation Index</td>
<td>--</td>
<td>-2.28%</td>
<td>88</td>
<td>6.73%</td>
<td>27</td>
<td>0.52%</td>
<td>19</td>
<td>-0.35</td>
<td>92</td>
<td>-0.69</td>
<td>98</td>
<td>0.34%</td>
</tr>
<tr>
<td>InvestorForce Public DB &lt; $50mm Net Median</td>
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<td>-0.30%</td>
<td>--</td>
<td>7.43%</td>
<td>--</td>
<td>-0.04%</td>
<td>--</td>
<td>-0.05</td>
<td>--</td>
<td>-0.08</td>
<td>--</td>
<td>0.95%</td>
</tr>
</tbody>
</table>

### 3 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Anlzd AJ</th>
<th>Rank</th>
<th>Sharpe Ratio</th>
<th>Rank</th>
<th>Sortino Ratio RF</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Composite</td>
<td>100.00%</td>
<td>5.54%</td>
<td>76</td>
<td>6.65%</td>
<td>57</td>
<td>1.58%</td>
<td>1</td>
<td>0.83</td>
<td>82</td>
<td>1.63</td>
<td>70</td>
<td>1.32%</td>
</tr>
<tr>
<td>Policy Index</td>
<td>--</td>
<td>3.92%</td>
<td>95</td>
<td>6.45%</td>
<td>50</td>
<td>0.00%</td>
<td>44</td>
<td>0.60</td>
<td>99</td>
<td>1.26</td>
<td>91</td>
<td>0.00%</td>
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<tr>
<td>Allocation Index</td>
<td>--</td>
<td>4.34%</td>
<td>93</td>
<td>6.59%</td>
<td>56</td>
<td>0.34%</td>
<td>29</td>
<td>0.65</td>
<td>98</td>
<td>1.33</td>
<td>83</td>
<td>0.41%</td>
</tr>
<tr>
<td>InvestorForce Public DB &lt; $50mm Net Median</td>
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<td>6.46%</td>
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<td>-0.13%</td>
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<td>1.05</td>
<td>--</td>
<td>1.99</td>
<td>--</td>
<td>1.01%</td>
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</tbody>
</table>

### 5 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Anlzd AJ</th>
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<th>Rank</th>
<th>Sortino Ratio RF</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Composite</td>
<td>100.00%</td>
<td>5.47%</td>
<td>77</td>
<td>7.74%</td>
<td>59</td>
<td>1.09%</td>
<td>2</td>
<td>0.70</td>
<td>77</td>
<td>1.03</td>
<td>76</td>
<td>1.20%</td>
</tr>
<tr>
<td>Policy Index</td>
<td>--</td>
<td>4.39%</td>
<td>98</td>
<td>7.67%</td>
<td>57</td>
<td>0.00%</td>
<td>31</td>
<td>0.57</td>
<td>96</td>
<td>0.87</td>
<td>83</td>
<td>0.00%</td>
</tr>
<tr>
<td>Allocation Index</td>
<td>--</td>
<td>4.55%</td>
<td>98</td>
<td>7.93%</td>
<td>65</td>
<td>0.02%</td>
<td>31</td>
<td>0.57</td>
<td>96</td>
<td>0.85</td>
<td>83</td>
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<tr>
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<td>6.24%</td>
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<td>0.91</td>
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<td>1.41</td>
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<td>1.19%</td>
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### 10 Years Ending December 31, 2015

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<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Anlzd AJ</th>
<th>Rank</th>
<th>Sharpe Ratio</th>
<th>Rank</th>
<th>Sortino Ratio RF</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
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<td>9.59%</td>
<td>66</td>
<td>1.23%</td>
<td>3</td>
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<td>1.92%</td>
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<td>10.11%</td>
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<td>InvestorForce Public DB &lt; $50mm Net Median</td>
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<td>8.74%</td>
<td>--</td>
<td>0.25%</td>
<td>--</td>
<td>0.54</td>
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<td>0.69</td>
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Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Asset Growth Summary

5 Years Ending December 31, 2015

Sources of Portfolio Growth

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<tr>
<th>Sources of Portfolio Growth</th>
<th>Last Three Months</th>
<th>Fiscal Year-To-Date</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
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<td>Beginning Market Value</td>
<td>$21,947,563</td>
<td>$23,101,909</td>
<td>$22,284,053</td>
<td>$19,115,781</td>
<td>$17,284,410</td>
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<tr>
<td>Net Additions/Withdrawals</td>
<td>-$5,816</td>
<td>-$105,816</td>
<td>$394,184</td>
<td>-$5,816</td>
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<tr>
<td>Investment Earnings</td>
<td>$482,354</td>
<td>-$571,993</td>
<td>-$254,137</td>
<td>$3,314,135</td>
<td>$5,175,506</td>
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Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Asset Allocation vs. Policy Targets

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<thead>
<tr>
<th>Asset Class</th>
<th>Current Value</th>
<th>Current %</th>
<th>Policy %</th>
<th>Difference*</th>
<th>Policy Range</th>
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<tbody>
<tr>
<td>U.S. Equity</td>
<td>$5,579,532</td>
<td>24.9%</td>
<td>25.0%</td>
<td>-0.1%</td>
<td>20.0% - 30.0%</td>
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<tr>
<td>Non-US Equity</td>
<td>$5,214,883</td>
<td>23.3%</td>
<td>25.0%</td>
<td>-1.7%</td>
<td>20.0% - 30.0%</td>
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<td>Core Bonds</td>
<td>$6,900,413</td>
<td>30.8%</td>
<td>30.0%</td>
<td>0.8%</td>
<td>25.0% - 35.0%</td>
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<td>TIPS</td>
<td>$2,263,138</td>
<td>10.1%</td>
<td>10.0%</td>
<td>0.1%</td>
<td>5.0% - 15.0%</td>
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<td>Commodities</td>
<td>$1,114,315</td>
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<td>5.0%</td>
<td>0.0%</td>
<td>0.0% - 10.0%</td>
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<tr>
<td>Cash</td>
<td>$1,351,821</td>
<td>6.0%</td>
<td>5.0%</td>
<td>1.0%</td>
<td>3.0% - 7.0%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$22,424,101</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
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*Difference between Policy and Current Allocation

*Policy Index: 25% Russell 3000, 25% MSCI ACWI ex US, 30% BC Aggregate, 10% US TIPS, 5% Bloomberg Commodity Index, 5% Cash
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan
Total Fund Asset Allocation History

Asset Allocation History

- U.S. Equity
- Non-US Equity
- Core Bonds
- TIPS
- Commodities
- Cash

December 31, 2015
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Risk/Return

1 Year Ending December 31, 2015

3 Years Ending December 31, 2015

- Total Composite
- Policy Index
- Universe Median
- 68% Confidence Interval
- InvestorForce Public DB < $50mm Net

Annualized Standard Deviation

Annualized Return

68 Portfolios

52 Portfolios
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Risk Statistics vs. Peer Universe

**Total Composite vs. InvestorForce Public DB < $50mm Net**

1 Year

### Anzld Return
- Total Composite Value: -1.12
- 5th %tile: 1.33
- 25th %tile: 0.33
- Median: -0.30
- 75th %tile: -1.42
- 95th %tile: -2.84
- Policy Index Value: 2.83
- 5th %tile: 1.42
- 25th %tile: 0.42
- Median: -0.12
- 75th %tile: -1.09
- 95th %tile: -2.32

### Anzld Alpha
- Total Composite Value: 1.69
- 5th %tile: 1.69
- 25th %tile: 0.33
- Median: -0.33
- 75th %tile: -1.00
- 95th %tile: -2.64
- Policy Index Value: 0.00
- 5th %tile: 0.00
- 25th %tile: 0.00
- Median: 0.00
- 75th %tile: 0.00
- 95th %tile: 0.00

### Anzld Standard Deviation
- Total Composite Value: 6.90
- 5th %tile: 6.90
- 25th %tile: 6.53
- Median: 7.43
- 75th %tile: 8.11
- 95th %tile: 9.02
- Policy Index Value: 6.78
- 5th %tile: 6.78
- 25th %tile: 6.78
- Median: 6.78
- 75th %tile: 6.78
- 95th %tile: 6.78

### Sharpe Ratio
- Total Composite Value: 0.50
- 5th %tile: 0.50
- 25th %tile: 0.50
- Median: 0.50
- 75th %tile: 0.50
- 95th %tile: 0.50
- Policy Index Value: -0.17
- 5th %tile: -0.17
- 25th %tile: -0.17
- Median: -0.17
- 75th %tile: -0.17
- 95th %tile: -0.17

### Sortino Ratio RF
- Total Composite Value: 0.90
- 5th %tile: 0.90
- 25th %tile: 0.90
- Median: 0.90
- 75th %tile: 0.90
- 95th %tile: 0.90
- Policy Index Value: -0.90
- 5th %tile: -0.90
- 25th %tile: -0.90
- Median: -0.90
- 75th %tile: -0.90
- 95th %tile: -0.90
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Risk Statistics vs. Peer Universe

Total Composite vs. InvestorForce Public DB < $50mm Net
3 Years

Anzld Return

Anzld Alpha

Anzld Standard Deviation

Sharpe Ratio

Sortino Ratio RF

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<thead>
<tr>
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<th>8.0</th>
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Total Composite Value: 5.54
Policy Index Value: 3.92

Total Composite Value: 1.58
Policy Index Value: 0.00

Total Composite Value: 6.65
Policy Index Value: 6.45

Total Composite Value: 0.83
Policy Index Value: 0.60

Total Composite Value: 1.63
Policy Index Value: 1.26
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Risk/Return

5 Years Ending December 31, 2015

10 Years Ending December 31, 2015

- Total Composite
- Policy Index
- Universe Median
- 68% Confidence Interval
- InvestorForce Public DB < $50mm Net
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Risk Statistics vs. Peer Universe

Total Composite vs. InvestorForce Public DB < $50mm Net
5 Years

Anzd Return

Anzd Alpha

Anzd Standard Deviation

Sharpe Ratio

Sortino Ratio RF

- Total Composite
  Value 5.47
  %tile 77

- Policy Index
  Value 4.39
  %tile 98

- Total Composite
  Value 1.09
  %tile 2

- Policy Index
  Value 0.00
  %tile 31

- Total Composite
  Value 7.74
  %tile 59

- Policy Index
  Value 7.67
  %tile 57

- Total Composite
  Value 0.70
  %tile 77

- Policy Index
  Value 0.57
  %tile 96

- Total Composite
  Value 1.03
  %tile 76

- Policy Index
  Value 0.87
  %tile 83

- Total Composite
  Value 5.42
  %tile 57

- 5th %tile 0.23
- 25th %tile -0.48
- Median -1.08
- 75th %tile -2.39
- 95th %tile

- Total Composite
  Value 6.35
  %tile 57

- 5th %tile 0.10
- 25th %tile 1.03
- Median 0.91
- 75th %tile 0.72
- 95th %tile 0.99

- Total Composite
  Value 4.27
  %tile 59

- 5th %tile 2.06
- 25th %tile 1.62
- Median 1.41
- 75th %tile 1.05
- 95th %tile 0.79
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Risk Statistics vs. Peer Universe

Total Composite vs. InvestorForce Public DB < $50mm Net
10 Years

- Anzld Return
  - Total Composite Value: 5.32
  - 5th %tile: 4.38
  - 25th %tile: 5.79
  - Median: 6.42
  - 75th %tile: 4.92
  - 95th %tile: 4.43
  - Policy Index Value: 1.26
  - 5th %tile: 0.00
  - 25th %tile: 0.82
  - Median: 0.31
  - 75th %tile: -0.37
  - 95th %tile: -1.04

- Anzld Alpha
  - Total Composite Value: 9.59
  - 5th %tile: 6.66
  - 25th %tile: 7.68
  - Median: 8.74
  - 75th %tile: 9.62
  - 95th %tile: 10.77
  - Policy Index Value: 0.44
  - 5th %tile: 0.32
  - 25th %tile: 0.63
  - Median: 0.41
  - 75th %tile: 0.44
  - 95th %tile: 0.32

- Anzld Standard Deviation

- Sharpe Ratio

- Sortino Ratio RF

December 31, 2015

NEPC, LLC
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Rolling 5 Year Excess Returns
Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

Total Fund Attribution Analysis

<table>
<thead>
<tr>
<th>Composite</th>
<th>Wtd. Actual Return</th>
<th>Wtd. Index Return</th>
<th>Excess Return</th>
<th>Selection Effect</th>
<th>Allocation Effect</th>
<th>Interaction Effects</th>
<th>Total Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity Composite</td>
<td>6.2%</td>
<td>6.3%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Int'l Equity Composite</td>
<td>2.5%</td>
<td>3.2%</td>
<td>-0.8%</td>
<td>-0.2%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Fixed Income Composite</td>
<td>0.0%</td>
<td>-0.9%</td>
<td>0.9%</td>
<td>0.3%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Commodities Composite</td>
<td>3.6%</td>
<td>-5.1%</td>
<td>8.6%</td>
<td>0.4%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Inflation-Linked Composite</td>
<td>-0.9%</td>
<td>-0.6%</td>
<td>-0.2%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cash Composite</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.2%</strong></td>
<td><strong>1.8%</strong></td>
<td><strong>0.4%</strong></td>
<td><strong>0.5%</strong></td>
<td><strong>-0.2%</strong></td>
<td><strong>0.0%</strong></td>
<td><strong>0.4%</strong></td>
</tr>
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</table>

Attribution Summary
3 Months Ending December 31, 2015

Total Fund Attribution Analysis

Attribution Effects
3 Months Ending December 31, 2015

- Allocation Effect
- Selection Effect
- Interaction Effects
- Total Effect

December 31, 2015
## Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

### Total Fund Attribution Analysis

#### Attribution Summary

<table>
<thead>
<tr>
<th>Composite</th>
<th>Wtd. Actual Return</th>
<th>Wtd. Index Return</th>
<th>Excess Return</th>
<th>Selection Effect</th>
<th>Allocation Effect</th>
<th>Interaction Effects</th>
<th>Total Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity Composite</td>
<td>0.2%</td>
<td>0.5%</td>
<td>-0.2%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Int'l Equity Composite</td>
<td>-4.2%</td>
<td>-5.7%</td>
<td>1.4%</td>
<td>0.3%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Fixed Income Composite</td>
<td>0.8%</td>
<td>-3.2%</td>
<td>4.0%</td>
<td>1.2%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>1.1%</td>
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<tr>
<td>Commodities Composite</td>
<td>-7.8%</td>
<td>-10.7%</td>
<td>2.9%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Inflation-Linked Composite</td>
<td>-1.7%</td>
<td>-1.4%</td>
<td>-0.3%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Cash Composite</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-1.2%</strong></td>
<td><strong>-2.6%</strong></td>
<td><strong>1.4%</strong></td>
<td><strong>1.6%</strong></td>
<td><strong>-0.2%</strong></td>
<td><strong>0.0%</strong></td>
<td><strong>1.4%</strong></td>
</tr>
</tbody>
</table>

#### Attribution Effects

1 Year Ending December 31, 2015

- **Total Composite**
- **U.S. Equity Composite**
- **Int'l Equity Composite**
- **Fixed Income Composite**
- **Commodities Composite**
- **Inflation-Linked Composite**
- **Cash Composite**

<table>
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<tr>
<th>Effect Type</th>
<th>Value</th>
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<tr>
<td>Allocation Effect</td>
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<tr>
<td>Selection Effect</td>
<td></td>
</tr>
<tr>
<td>Interaction Effects</td>
<td></td>
</tr>
<tr>
<td>Total Effect</td>
<td></td>
</tr>
</tbody>
</table>

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**December 31, 2015**
## Total Fund Risk Statistics

### 1 Year Ending December 31, 2015

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
<th>Info Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity Composite</td>
<td>24.88%</td>
<td>0.23%</td>
<td>39</td>
<td>13.31%</td>
<td>51</td>
<td>-0.25%</td>
<td>39</td>
<td>0.32%</td>
<td>1</td>
<td>-0.77</td>
<td>-</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>--</td>
<td>0.48%</td>
<td>37</td>
<td>13.28%</td>
<td>50</td>
<td>0.00%</td>
<td>37</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Int'l Equity Composite</td>
<td>23.26%</td>
<td>-4.22%</td>
<td>80</td>
<td>14.04%</td>
<td>70</td>
<td>1.44%</td>
<td>80</td>
<td>2.01%</td>
<td>4</td>
<td>0.72</td>
<td>71</td>
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<tr>
<td>MSCI ACWI ex USA</td>
<td>--</td>
<td>-5.66%</td>
<td>87</td>
<td>15.07%</td>
<td>82</td>
<td>0.00%</td>
<td>87</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Fixed Income Composite</td>
<td>30.77%</td>
<td>0.81%</td>
<td>34</td>
<td>3.21%</td>
<td>87</td>
<td>3.96%</td>
<td>34</td>
<td>4.04%</td>
<td>77</td>
<td>0.98</td>
<td>40</td>
</tr>
<tr>
<td>Barclays Global Aggregate</td>
<td>--</td>
<td>-3.16%</td>
<td>99</td>
<td>3.08%</td>
<td>85</td>
<td>0.00%</td>
<td>99</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Commodities Composite</td>
<td>4.97%</td>
<td>-7.79%</td>
<td>--</td>
<td>9.20%</td>
<td>--</td>
<td>16.87%</td>
<td>--</td>
<td>17.18%</td>
<td>--</td>
<td>0.98</td>
<td>--</td>
</tr>
<tr>
<td>Bloomberg Commodity Index TR USD</td>
<td>--</td>
<td>-24.66%</td>
<td>--</td>
<td>15.31%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Inflation-Linked Composite</td>
<td>10.09%</td>
<td>-1.74%</td>
<td>58</td>
<td>4.33%</td>
<td>77</td>
<td>-0.30%</td>
<td>58</td>
<td>0.51%</td>
<td>44</td>
<td>-0.58</td>
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</tr>
<tr>
<td>Barclays US TIPS</td>
<td>--</td>
<td>-1.44%</td>
<td>33</td>
<td>4.08%</td>
<td>64</td>
<td>0.00%</td>
<td>33</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Cash Composite</td>
<td>6.03%</td>
<td>0.05%</td>
<td>--</td>
<td>0.01%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>0.03%</td>
<td>--</td>
<td>-0.08</td>
<td>--</td>
</tr>
<tr>
<td>BofA Merrill Lynch 91-Day T-Bill</td>
<td>--</td>
<td>0.05%</td>
<td>--</td>
<td>0.04%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>
### Arizona Fire Fighter and Peace Officer Cancer Insurance Plan

**Total Fund Risk Statistics**

#### 3 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
<th>Info Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity Composite</td>
<td>24.88%</td>
<td>14.42%</td>
<td>38</td>
<td>10.80%</td>
<td>22</td>
<td>-0.32%</td>
<td>38</td>
<td>0.31%</td>
<td>1</td>
<td>-1.04</td>
<td>--</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>--</td>
<td>14.74%</td>
<td>34</td>
<td>10.73%</td>
<td>19</td>
<td>0.00%</td>
<td>34</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Intl Equity Composite</td>
<td>23.26%</td>
<td>1.18%</td>
<td>88</td>
<td>12.24%</td>
<td>69</td>
<td>-0.31%</td>
<td>88</td>
<td>2.26%</td>
<td>5</td>
<td>-0.14</td>
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<tr>
<td>MSCI ACWI ex USA</td>
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<td>1.50%</td>
<td>87</td>
<td>12.30%</td>
<td>70</td>
<td>0.00%</td>
<td>87</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Fixed Income Composite</td>
<td>30.77%</td>
<td>1.17%</td>
<td>73</td>
<td>3.37%</td>
<td>94</td>
<td>2.91%</td>
<td>73</td>
<td>3.17%</td>
<td>35</td>
<td>0.92</td>
<td>69</td>
</tr>
<tr>
<td>Barclays Global Aggregate</td>
<td>--</td>
<td>-1.74%</td>
<td>99</td>
<td>3.95%</td>
<td>99</td>
<td>0.00%</td>
<td>99</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Cash Composite</td>
<td>6.03%</td>
<td>0.05%</td>
<td>--</td>
<td>0.01%</td>
<td>--</td>
<td>-0.01%</td>
<td>--</td>
<td>0.02%</td>
<td>--</td>
<td>-0.34</td>
<td>--</td>
</tr>
<tr>
<td>BofA Merrill Lynch 91-Day T-Bill</td>
<td>--</td>
<td>0.05%</td>
<td>--</td>
<td>0.02%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

*Asset classes shown sum to less than 100%, due to the exclusion of Commodites and Inflation-Linked composites that do not have a 3 year history*
### 5 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
<th>Info Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity Composite</td>
<td>24.88%</td>
<td>11.92%</td>
<td>34</td>
<td>12.02%</td>
<td>20</td>
<td>-0.26%</td>
<td>34</td>
<td>0.43%</td>
<td>1</td>
<td>-0.60</td>
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</tr>
<tr>
<td>Russell 3000</td>
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<td>12.18%</td>
<td>30</td>
<td>12.08%</td>
<td>21</td>
<td>0.00%</td>
<td>30</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Int'l Equity Composite</td>
<td>23.26%</td>
<td>1.06%</td>
<td>86</td>
<td>15.44%</td>
<td>77</td>
<td>0.00%</td>
<td>86</td>
<td>2.62%</td>
<td>8</td>
<td>0.00%</td>
<td>86</td>
</tr>
<tr>
<td>MSCI ACWI ex USA</td>
<td>--</td>
<td>1.06%</td>
<td>86</td>
<td>14.97%</td>
<td>63</td>
<td>0.00%</td>
<td>86</td>
<td>0.00%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Fixed Income Composite</td>
<td>30.77%</td>
<td>3.23%</td>
<td>70</td>
<td>3.04%</td>
<td>86</td>
<td>2.33%</td>
<td>70</td>
<td>3.26%</td>
<td>40</td>
<td>0.72%</td>
<td>66</td>
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<td>4.09%</td>
<td>97</td>
<td>0.00%</td>
<td>99</td>
<td>0.00%</td>
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<td>--</td>
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</tr>
<tr>
<td>Cash Composite</td>
<td>6.03%</td>
<td>0.06%</td>
<td>--</td>
<td>0.01%</td>
<td>--</td>
<td>-0.01%</td>
<td>--</td>
<td>0.02%</td>
<td>--</td>
<td>-0.62%</td>
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<td>0.07%</td>
<td>--</td>
<td>0.03%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>0.00%</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

*Asset classes shown sum to less than 100%, due to the exclusion of Commodites and Inflation-Linked composites that do not have a 3 year history.*
<table>
<thead>
<tr>
<th>Category</th>
<th>Market Value ($)</th>
<th>% of Portfolio</th>
<th>3 Mo (%) Rank</th>
<th>Fiscal YTD (%) Rank</th>
<th>1 Yr (%) Rank</th>
<th>3 Yrs (%) Rank</th>
<th>5 Yrs (%) Rank</th>
<th>10 Yrs (%) Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Composite</strong></td>
<td>22,424,101</td>
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<td>2.2 82</td>
<td>-2.5 60</td>
<td>-1.1 73</td>
<td>5.5 76</td>
<td>5.5 77</td>
<td>5.3 55</td>
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<td>Policy Index</td>
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<td></td>
<td>1.6 91</td>
<td>-3.4 83</td>
<td>-2.8 98</td>
<td>3.9 95</td>
<td>4.4 98</td>
<td>4.2 99</td>
</tr>
<tr>
<td>Over/Under</td>
<td></td>
<td></td>
<td>0.6 9</td>
<td>0.9 17</td>
<td>1.7 88</td>
<td>4.3 93</td>
<td>4.5 98</td>
<td>4.5 95</td>
</tr>
<tr>
<td>Allocation Index</td>
<td></td>
<td></td>
<td>2.2 81</td>
<td>-2.8 69</td>
<td>-2.3 88</td>
<td>4.3 93</td>
<td>4.5 98</td>
<td>4.5 95</td>
</tr>
<tr>
<td>InvestorForce Public DB &lt; $50mm Net Median</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>U.S. Equity Composite</strong></td>
<td>5,579,532</td>
<td>24.9</td>
<td>6.2 24</td>
<td>-1.6 27</td>
<td>0.2 39</td>
<td>14.4 38</td>
<td>11.9 34</td>
<td>6.8 67</td>
</tr>
<tr>
<td>Russell 3000</td>
<td></td>
<td></td>
<td>6.3 23</td>
<td>-1.4 26</td>
<td>0.5 37</td>
<td>14.7 34</td>
<td>12.2 30</td>
<td>7.4 51</td>
</tr>
<tr>
<td>Over/Under</td>
<td></td>
<td></td>
<td>-0.1 24</td>
<td>-0.2 26</td>
<td>-0.3 87</td>
<td>-0.3 87</td>
<td>-0.3 87</td>
<td>-0.6 87</td>
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<tr>
<td><strong>Int’l Equity Composite</strong></td>
<td>5,214,883</td>
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<td>2.5 88</td>
<td>-9.1 86</td>
<td>-4.2 80</td>
<td>1.2 88</td>
<td>1.1 86</td>
<td>-- --</td>
</tr>
<tr>
<td>MSCI ACWI ex USA</td>
<td></td>
<td></td>
<td>3.2 81</td>
<td>-9.3 87</td>
<td>-5.7 87</td>
<td>1.5 87</td>
<td>1.1 86</td>
<td>2.9 81</td>
</tr>
<tr>
<td>Over/Under</td>
<td></td>
<td></td>
<td>-0.7 81</td>
<td>0.2 15</td>
<td>1.5 87</td>
<td>-0.3 87</td>
<td>0.0 87</td>
<td>0.0 87</td>
</tr>
<tr>
<td>eA All ACWI ex-US Equity Net Median</td>
<td></td>
<td></td>
<td>4.7 88</td>
<td>-6.0 87</td>
<td>-0.4 87</td>
<td>13.4 87</td>
<td>10.9 87</td>
<td>7.4 87</td>
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<tr>
<td><strong>Fixed Income Composite</strong></td>
<td>6,900,413</td>
<td>30.8</td>
<td>0.0 4</td>
<td>1.4 4</td>
<td>0.8 34</td>
<td>1.2 73</td>
<td>3.2 70</td>
<td>4.5 72</td>
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<tr>
<td>Barclays Global Aggregate</td>
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<td>-0.9 95</td>
<td>-0.1 87</td>
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<tr>
<td>Over/Under</td>
<td></td>
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<td>0.9 95</td>
<td>1.5 99</td>
<td>4.0 99</td>
<td>2.9 99</td>
<td>2.3 99</td>
<td>0.8 99</td>
</tr>
<tr>
<td>eA US Core Fixed Inc Net Median</td>
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<td></td>
<td>-0.5 95</td>
<td>0.5 99</td>
<td>0.5 99</td>
<td>1.5 99</td>
<td>3.5 99</td>
<td>4.7 99</td>
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<tr>
<td><strong>Commodities Composite</strong></td>
<td>1,114,315</td>
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<td>3.8 --</td>
<td>-2.9 --</td>
<td>-7.8 --</td>
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</tr>
<tr>
<td>Bloomberg Commodity Index TR USD</td>
<td></td>
<td></td>
<td>-10.5 --</td>
<td>-23.5 --</td>
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<td>-17.3 --</td>
<td>-13.5 --</td>
<td>-6.4 --</td>
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<tr>
<td><strong>Inflation-Linked Composite</strong></td>
<td>2,263,138</td>
<td>10.1</td>
<td>-0.9 93</td>
<td>-1.8 32</td>
<td>-1.7 58</td>
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<td>-- --</td>
</tr>
<tr>
<td>Barclays US TIPS</td>
<td></td>
<td></td>
<td>-0.6 33</td>
<td>-1.8 33</td>
<td>-1.4 33</td>
<td>-2.3 46</td>
<td>2.5 27</td>
<td>3.9 38</td>
</tr>
<tr>
<td>Over/Under</td>
<td></td>
<td></td>
<td>-0.3 33</td>
<td>0.0 33</td>
<td>-0.3 33</td>
<td>0.0 33</td>
<td>-0.1 33</td>
<td>-0.1 33</td>
</tr>
<tr>
<td>eA TIPS / Infl Indexed Fixed Inc Net Median</td>
<td></td>
<td></td>
<td>-0.7 33</td>
<td>-1.8 33</td>
<td>-1.6 33</td>
<td>-2.3 33</td>
<td>2.3 33</td>
<td>3.9 33</td>
</tr>
<tr>
<td><strong>Cash Composite</strong></td>
<td>1,351,578</td>
<td>6.0</td>
<td>0.0 --</td>
<td>0.0 --</td>
<td>0.1 --</td>
<td>0.0 --</td>
<td>0.1 --</td>
<td>1.4 --</td>
</tr>
<tr>
<td>BofA Merrill Lynch 91-Day T-Bill</td>
<td></td>
<td></td>
<td>0.0 33</td>
<td>0.1 33</td>
<td>0.1 33</td>
<td>0.0 33</td>
<td>0.1 33</td>
<td>1.2 --</td>
</tr>
<tr>
<td>Over/Under</td>
<td></td>
<td></td>
<td>0.0 33</td>
<td>0.0 33</td>
<td>0.0 33</td>
<td>0.0 33</td>
<td>0.0 33</td>
<td>0.2 --</td>
</tr>
</tbody>
</table>

*Performance returns are reported net of fees.

*Fiscal year ends June 30.
Information Disclaimer and Reporting Methodology

**Information Disclaimer**

- Past performance is no guarantee of future results.
- All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.
- NEPC’s source for portfolio pricing, calculation of accruals, and transaction information is the plan’s custodian bank. Information on market indices and security characteristics is received from other sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
- Some index returns displayed in this report or used in calculation of a policy, allocation or custom benchmark may be preliminary and subject to change.
- This report is provided as a management aid for the client’s internal use only. Information contained in this report does not constitute a recommendation by NEPC.
- This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

**Reporting Methodology**

- The client’s custodian bank is NEPC’s preferred data source unless otherwise directed. NEPC generally reconciles custodian data to manager data. If the custodian cannot provide accurate data, manager data may be used.
- Trailing time period returns are determined by geometrically linking the holding period returns, from the first full month after inception to the report date. Rates of return are annualized when the time period is longer than a year. Performance is presented gross and/or net of manager fees as indicated on each page.
- For managers funded in the middle of a month, the “since inception” return will start with the first full month, although actual inception dates and cash flows are taken into account in all Composite calculations.
- This report may contain forward-looking statements that are based on NEPC’s estimates, opinions and beliefs, but NEPC cannot guarantee that any plan will achieve its targeted return or meet other goals.
Arizona Public Safety Retirement Trust
Investment Summary
Quarter Ending December 31, 2015

Don Stracke, CFA, CAIA, Senior Consultant
Allan Martin, Partner
Tony Ferrara, CAIA Senior Analyst
Market Environment Update and Outlook
**Economic Environment**

- **Fourth quarter GDP growth rate (first estimate) printed at a modest 0.7%**.
  - Retail sales (ended November) at +0.9% on a year-over-year growth rate basis. In the same period last year the YoY growth rate was 4.6%.
  - The inventory-to-sales ratio ending November was flat at 1.4 and has remained relatively flat since early 2010.
  - Corporate profits (ended June) as a percent of GDP declined slightly vs first quarter GDP to 9.9% from 10.3% and remain elevated relative to historical levels.
  - The U.S. trade deficit declined slightly in November.

- **The unemployment rate fell to 5.0% in Q4 from 5.6% in Q4 2014; U-6, a broader measure of unemployment, fell to 9.9% during the fourth quarter.**

- **The Case-Shiller Home Price Index (as of 10/31) increased slightly to 175.7 from second quarter levels (170.0) and is at levels higher than that of pre-financial crisis levels of 150.9.**

- **Rolling 12-month seasonally adjusted CPI increased to 0.6% from -0.02% at the end of September; Capacity Utilization decreased to 76.5% in December from 77.9% in September.**

- **Fed Funds rate was raised to 0.50% from 0.25%; The 10-year Treasury Yield (constant maturity) finished Q4 at 2.2% flat from Q3.**

- **The Fed balance sheet remained little changed in Q4 2015, while the European Central Bank balance sheet continues to increase.**
  - ECB continues asset purchases of €60 billion per month.

- **S&P valuations decreased in December remaining above the 10-year and long-term averages**
  - Cyclically adjusted Shiller PE ratio (23.95x) is above the long-term average of 16.4x and above the 10-year average of 22.9x.

- **The U.S. Dollar continues its strength against a basket of major currencies**
  - Currency volatility has seen a sustained uptick since Q1 2015.
Global Equity

- U.S. equities posted solid gains in the fourth quarter as global volatility continued.
- Small cap stocks underperformed large cap stocks during the quarter, with the Russell 2000 Index returning 3.6% and the Russell 1000 Index returning 6.5%.
- International equities underperformed U.S. markets during the quarter, returning 3.2%, as measured by the MSCI ACWI ex-U.S. Index.
  - Developed markets returned 4.7% as measured by the MSCI EAFE Index. The Pacific Region led returns posting a 9.0% gain with New Zealand leading the group up 18.2%. Europe posted modest gains, up 2.5%
  - Emerging markets returned 0.7% as measured by the MSCI Emerging Markets Index in U.S. dollar terms. Indonesia and China led gains returning 20.8% and 13.1% respectively.

Private Equity

- New private equity commitments totaled $312 billion in calendar year 2015.
  - Represents a 14% decline from the $360 billion raised in 2014, resulting from public equity market volatility and increased economic uncertainties.
- Buyout and Special Situations fundraising down over 20% from post crisis high in 2014.
- Venture capital raised approximately $43.9 billion in calendar 2015.
  - VC fundraising as a percent of total new PE funds is in line with historical post-dot com levels at approximately 14%.
- Energy funds raised $38.6 billion representing 12% of capital raised in 2015.
  - Investors are opportunistically approaching the energy market dislocation.
- Asian private equity commitments slowed to total 8% of total funds raised down from 11% in 2014.
- European commitments comprised 23% of all new PE commitments in 2015.
  - Fifteen pan-European buyout managers with closes on over $1 billion each raised over half of 2015 total
### Market Environment – Q4 2015 Overview

**World Equity Benchmarks**

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>World</th>
<th>Qtr.</th>
<th>1 Yr.</th>
<th>3 Yr.</th>
<th>5 Yr.</th>
<th>10 Yr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI ACWI</td>
<td>5.0%</td>
<td>-2.4%</td>
<td>7.7%</td>
<td>6.1%</td>
<td>4.8%</td>
<td></td>
</tr>
</tbody>
</table>

**Domestic Equity Benchmarks**

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Qtr.</th>
<th>1 Yr.</th>
<th>3 Yr.</th>
<th>5 Yr.</th>
<th>10 Yr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 1000</td>
<td>7.0%</td>
<td>1.4%</td>
<td>15.1%</td>
<td>12.6%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>7.3%</td>
<td>5.7%</td>
<td>16.8%</td>
<td>13.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Russell 1000 Value</td>
<td>5.6%</td>
<td>-3.8%</td>
<td>13.1%</td>
<td>11.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>3.6%</td>
<td>-4.4%</td>
<td>11.7%</td>
<td>9.2%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Russell 2000 Growth</td>
<td>4.3%</td>
<td>-1.4%</td>
<td>14.3%</td>
<td>10.7%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Russell 2000 Value</td>
<td>2.9%</td>
<td>-7.5%</td>
<td>9.1%</td>
<td>7.7%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

**International Equity Benchmarks**

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Qtr.</th>
<th>1 Yr.</th>
<th>3 Yr.</th>
<th>5 Yr.</th>
<th>10 Yr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI ACWI Ex USA</td>
<td>3.2%</td>
<td>-5.7%</td>
<td>1.5%</td>
<td>1.1%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

**Domestic Fixed Income Benchmarks**

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Core Bonds</th>
<th>Qtr.</th>
<th>1 Yr.</th>
<th>3 Yr.</th>
<th>5 Yr.</th>
<th>10 Yr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Aggregate</td>
<td>-0.6%</td>
<td>0.5%</td>
<td>1.4%</td>
<td>3.2%</td>
<td>4.5%</td>
<td></td>
</tr>
<tr>
<td>Barclays US High Yield</td>
<td>-2.1%</td>
<td>-4.5%</td>
<td>1.7%</td>
<td>5.0%</td>
<td>7.0%</td>
<td></td>
</tr>
<tr>
<td>BoA ML US HY BB/B</td>
<td>-1.1%</td>
<td>-2.9%</td>
<td>2.2%</td>
<td>5.3%</td>
<td>6.5%</td>
<td></td>
</tr>
<tr>
<td>CSFB Levered Loans</td>
<td>-2.0%</td>
<td>-0.4%</td>
<td>2.6%</td>
<td>3.8%</td>
<td>4.1%</td>
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</tr>
<tr>
<td>BoA ML US 3-Month T-Bill</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>1.2%</td>
<td></td>
</tr>
<tr>
<td>Barclays US TIPS 1-10 Yr</td>
<td>-0.7%</td>
<td>-0.5%</td>
<td>-1.8%</td>
<td>1.6%</td>
<td>3.5%</td>
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</table>

**Global Fixed Income Benchmarks**

<table>
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<tr>
<th>Benchmark</th>
<th>World Gov. Bonds</th>
<th>Qtr.</th>
<th>1 Yr.</th>
<th>3 Yr.</th>
<th>5 Yr.</th>
<th>10 Yr.</th>
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</thead>
<tbody>
<tr>
<td>Citigroup WGBI</td>
<td>-1.2%</td>
<td>-3.6%</td>
<td>-2.7%</td>
<td>-0.1%</td>
<td>3.4%</td>
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<tr>
<td>BC Global Credit</td>
<td>-0.8%</td>
<td>-3.5%</td>
<td>-0.3%</td>
<td>2.8%</td>
<td>4.3%</td>
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</tr>
<tr>
<td>JPM GBI-EM Glob. Diversified</td>
<td>-0.0%</td>
<td>-14.9%</td>
<td>-10.0%</td>
<td>-3.5%</td>
<td>4.3%</td>
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<tr>
<td>JPM EMBI+</td>
<td>1.8%</td>
<td>1.8%</td>
<td>-0.3%</td>
<td>5.0%</td>
<td>6.7%</td>
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**Alternative Benchmarks**

<table>
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<tr>
<th>Benchmark</th>
<th>Commodity</th>
<th>Qtr.</th>
<th>1 Yr.</th>
<th>3 Yr.</th>
<th>5 Yr.</th>
<th>10 Yr.</th>
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</thead>
<tbody>
<tr>
<td>Bloomberg Commodity Index</td>
<td>-10.5%</td>
<td>-24.7%</td>
<td>-17.3%</td>
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<td>-6.4%</td>
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</tr>
<tr>
<td>Credit Suisse Hedge Fund Index</td>
<td>-0.1%</td>
<td>-0.7%</td>
<td>4.3%</td>
<td>3.6%</td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td>HFRI FoF Conservative</td>
<td>0.1%</td>
<td>0.4%</td>
<td>3.7%</td>
<td>2.3%</td>
<td>2.0%</td>
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<tr>
<td>Cambridge PE Lagged*</td>
<td>-1.8%</td>
<td>5.4%</td>
<td>13.5%</td>
<td>14.1%</td>
<td>12.1%</td>
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</tr>
<tr>
<td>NCREIF ODCE Net Lagged*</td>
<td>3.4%</td>
<td>13.9%</td>
<td>12.4%</td>
<td>12.9%</td>
<td>5.7%</td>
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<tr>
<td>Wilshire REIT Index</td>
<td>7.5%</td>
<td>4.2%</td>
<td>11.8%</td>
<td>12.4%</td>
<td>7.3%</td>
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</tr>
<tr>
<td>CPI + 2%</td>
<td>0.6%</td>
<td>2.7%</td>
<td>3.0%</td>
<td>3.6%</td>
<td>3.9%</td>
<td></td>
</tr>
</tbody>
</table>

* As of 9/30/2015
Market Environment

**Fixed Income**

- The yield curve shifted up with intermediate yields increasing 21-39 basis points and long duration yields increasing 14 basis points.

- The spread between two and 10-year rates decreased to 121 basis points from 141 basis points ended December. Treasury Inflation-Protected Securities, or TIPS, returned -0.7% during the quarter, as measured by the Barclays US TIPS 1-10 Yr Index.

- The Barclays Long Duration Credit Index lost -0.67% as the long end of the curve ended the quarter 14 basis points higher.

- Long Treasuries lost -1.38% and investment-grade corporate debt lost -0.52%.

- The Barclays 1-3 year Government/ Credit Index returned -0.36% and US high yield bonds lost -2.1%.

- Emerging markets debt continued to slow in local currency and was modestly positive in US denominated terms.
  - US dollar-denominated debt, as measured by the JP Morgan EMBI Index, gained 1.8%; local currency debt was flat, according to the JP Morgan GBI-EM Index.
Real Assets/Inflation-Linked Assets

• **Massive energy market dislocation.**
  - Seek inflation sensitive asset classes that offer positive yield
  - Oil prices trending lower.
  - Private equity and private debt opportunities may be relatively attractive.
  - Potential for public stressed/distressed credit, equity and commodity plays.

• **OPEC and Saudi Arabia have indicated a willingness to allow lower oil prices to persist in efforts to cement market share and reduce marginal supply.**

• **Select infrastructure opportunities are attractive.**
  - Target opportunistic strategies in niche sub-sectors to take advantage of market dislocations.

• **NEPC continues to believe in the long-term demand drivers in agriculture.**
  - Long-term commodity prices driven by growing emerging market demand.
  - Softness in commodity prices may provide attractive entry point.

• **Timber opportunity set limited but warrants further review**
  - 45% increase in housing starts forecasted; timber prices highly correlated
Commodities

- Commodities retracted significantly with the Bloomberg Commodity Index posting a -10.5%.
  - Commodities ended the year down -24.6% with 21 of the 22 single-commodity indexes posting losses.

Real Estate

- NEPC continues to be neutral on core real estate in the US and remains positive on non-core real estate, that is, value-add and opportunistic strategies.

- Within U.S. core real estate, strong fundamentals continue to be the story along with attractive income spreads relative to interest rates.
  - Real estate fundamentals and debt terms are attractive, however valuations are high and the possibility of rising interest rates and the impact on cap rates causes concern.

- Overall, the non-core real estate investment environment in the U.S. is normalizing; however, select areas remain attractive.

- Europe is viewed as the best place for a marginal dollar of non-core real estate investment.
  - Europe is emerging from multi-year recession, but recovery is slow and uneven with global markets experiencing large capital inflows.
  - Banks in EU are still overleveraged and have significant real estate exposure to jettison.
Tale of Two Economies: Corporate Sector and the US Consumer

**Corporate Profits: Mid-Late Cycle**

<table>
<thead>
<tr>
<th>Year</th>
<th>Profits</th>
<th>US Recession</th>
<th>Source: St. Louis Federal Reserve</th>
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</thead>
<tbody>
<tr>
<td>1970</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td></td>
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<td>2010</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
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</tbody>
</table>

**Economic Growth Levels: Mid Cycle**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth</th>
<th>US Recession</th>
<th>Source: St. Louis Federal Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
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<td>2000</td>
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<td>2010</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
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</tbody>
</table>

**Wage Growth: Early Cycle**

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Hourly Earnings</th>
<th>US Recession</th>
<th>Source: St. Louis Federal Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
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<td>2010</td>
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<td>2015</td>
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</tbody>
</table>

**Where Are We In the Economic Cycle?**

- Relative to the average length of economic cycles the US expansion is in its later stages
- Improvement in wage growth and consumer spending can potentially extend the expansion
- Continued US expansion provides a positive foundation for US risk assets

Source: St. Louis Federal Reserve
Accommodative global monetary policies flow through to markets distorting the traditional asset return profile
  - QE and negative interest rates suppress income while supporting higher valuations
  - Provides near term support for market conditions in Europe and Japan

Potential extended period of low cash rates beyond the market expectations pose challenges for all investors
  - Subdued long term cash expectations in the developed world compress long term expected returns for both fixed income and equity
US centric portfolios like 60/40 have worked historically but forward looking return prospects are subdued
- Asset prices can be sustained but low yields portend below average expected returns

Conventional investment approaches may fall short going forward
- Index focused approaches, such as core bonds, suboptimal in current environment
- Adjustments will be necessary to effectively meet and exceed long-term objectives

Low Global Cash Rates Suppress Long Term Return Expectations

Source: Shiller Data, NEPC
• **Maintain exposure to US risk assets in a low return environment**
  – Lower returns expected but risk premia can still be harvested as cycle extends
  – Economic cycle is in the advanced stages but macro policy remains supportive
  – Low core bond returns warrant a more positive tilt to equity, especially after sell-offs

• **Overweight non-US developed market equities**
  – Central bank support and dollar strength provide a positive economic backdrop
  – Corporate earnings remain well below 2007 levels despite recent earnings recovery
  – EAFE equity markets offer the potential for outsized returns relative to US equities

• **Reaffirm commitment to emerging market equities**
  – Valuations and long-term fundamentals suggest an overweight
  – China uncertainty, dollar pressure and idiosyncratic country risks temper excitement
  – Overweight small-cap and consumer focused strategies relative to broad mandates

• **Seek tactical fixed income strategies but preserve duration exposure**
  – Spreads have widened but credit selection is critical as credit cycle matures
  – US duration continues to have a role in a diversified and risk-aware portfolio
  – TIPS offer an attractive duration profile with inflation expectations at secular lows

• **Explore positive yielding assets revealed from energy market distress**
  – Private strategy returns are compelling but suggest patience
  – Focus on segments of the public markets that offer a yield
Highlights of Fourth Quarter Happenings at NEPC

After 30 Years NEPC's Founder has Transitioned to Chairman Emeritus

- NEPC’s founder and chairman Richard “Dick” Charlton retired on January 1, 2016 after overseeing a decade-long succession process that involved a change in corporate structure and a planned approach to distributing his ownership shares. Dick had the foresight to begin distributing equity to partners 25 years ago and the formal succession process began in late 2007. Dick’s vision for a client-focused organization continues to be the hallmark of NEPC and this deep-rooted culture will live on for generations to come. Mike Manning continues in his leadership role as Managing Partner with the guidance of our Partnership; a Partnership recognized throughout the industry for its depth, talent and culture. We are well positioned to lead in this increasingly competitive marketplace. NEPC has never been stronger.

Professional Staff Updates

- **New Principals**: Lenia Ascenso, Principal and Director of Discretionary Operations; Devan Dewey, Principal and Chief Technology Officer; and Matt Lombardi, Principal and Chief Financial Officer

- We are also pleased to announce that Wyatt Crumpler joined NEPC in November as a Principal and Senior Consultant from American Beacon Advisors, Inc., and Sam Pollack joined NEPC as a Senior Consultant from DiMeo Schneider and Associates. Wyatt is a member of NEPC’s Corporate consulting group and Sam is a member of NEPC’s Endowment & Foundation consulting group.

Upcoming/Recent Events

- 2016 Market Outlook Webinar: January 26, 2016 at 2:00 PM EST.

- NEPC’s 21st Annual Client Conference: May 10-11, 2016 in Boston at the Hynes Convention Center.
  - This year we will be offering an optional pre-conference workshop on Monday, May 9th at NEPC’s Boston office.

- NEPC hosted a Manager Diversity Program event at our Boston office on October 12, 2015 in an effort to continue and enhance our firm’s efforts in this area. The purpose of the gathering was to provide an opportunity for diverse managers to meet NEPC and have an open discussion about our research efforts in the arena of minority- and female-owned firms.
NEPC Updates

December 31, 2015

Highlights of Fourth Quarter Happenings at NEPC - continued

NEPC Research

Recent White Papers
- 2015 Fourth Quarter Market Thoughts
- Governance: The Cornerstone of Successful Investment Programs (January 2016) - Endowment & Foundation Practice Team
- Green Bonds: An Overview (December 2015) – NEPC Impact Investing Committee
- Completing the Analysis: ESG Integration (November 2015) – NEPC Impact Investing Committee
- NEPC’s Survey on Hedge Fund Operations (November 2015) – Hedge Fund Operational Due Diligence team
- Market Chatter: The Rise and Fall (and Rise?) of Oil Prices (October 2015 )

NEPC Recognitions

- NEPC, LLC was awarded "Best Full-Service Investment Consulting Firm - USA" by Acquisition International for the 2016 Hedge Fund Awards ¹

NEPC Client Recognitions

- Congratulations to the following NEPC clients for their nominations as Asset Owner Finalists for the 2015 CIO Industry Innovation Awards. Five NEPC clients who won awards in their categories are also highlighted below.
  - **Foundation:** Wisconsin Alumni Research Foundation (Carrie Thome) - Category Winner; Northwest Area Foundation (Amy Jensen)
  - **Endowment:** Fordham University (Eric Wood); Texas Tech University System (Tim Barrett)
  - **Public Defined Benefit Plan Below $15B:** Orange County Employees Retirement System (Girard Miller) - Category Winner; MoDOT and Patrol Employees' Retirement System (Larry Krummen)
  - **Public Defined Benefit Plan Between $15B and $100B:** Massachusetts PRIM (Michael Trotsky) - Category Winner
  - **Public Defined Benefit Plan Above $100B:** New York City Retirement System (Scott Evans); State of Wisconsin Investment Board (David Villa)
  - **Health Care Organization:** Baylor Scott and White Health (Mark Amiri) - Category Winner; Trinity Health (Dina Richards)
  - **Next Generation:** Massachusetts PRIM (Sarah Samuels) - Category Winner

¹ This award pertains to NEPC's past performance only and is not indicative of NEPC's future performance. It should not be considered an endorsement of NEPC.
Total Fund Performance
Arizona Public Safety Retirement Trust

Total Fund Performance Summary

<table>
<thead>
<tr>
<th>Market Value</th>
<th>3 Mo Rank</th>
<th>Fiscal YTD Rank</th>
<th>1 Yr Rank</th>
<th>3 Yrs Rank</th>
<th>5 Yrs Rank</th>
<th>10 Yrs Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona PSPRS Trust</td>
<td>$8,292,399,153</td>
<td>1.5% 86</td>
<td>-0.9% 10</td>
<td>2.7% 6</td>
<td>7.3% 56</td>
<td>6.4% 78</td>
</tr>
<tr>
<td>Policy Index</td>
<td>2.5% 50</td>
<td>-1.2% 17</td>
<td>1.1% 34</td>
<td>6.3% 77</td>
<td>6.4% 78</td>
<td>4.0% 99</td>
</tr>
<tr>
<td>PSPRS W/T NCREIF</td>
<td>1.6% 80</td>
<td>-0.6% 8</td>
<td>3.5% 2</td>
<td>8.0% 39</td>
<td>7.4% 48</td>
<td>5.5% 73</td>
</tr>
<tr>
<td>60% MSCI World (Gross) / 40% CITI WGBI</td>
<td>2.9% 31</td>
<td>-1.6% 26</td>
<td>-1.4% 91</td>
<td>5.0% 91</td>
<td>5.0% 95</td>
<td>5.0% 83</td>
</tr>
<tr>
<td>InvestorForce Public DB &gt; $1B Gross Median</td>
<td>2.5% 0.4%</td>
<td>7.5% 7.3%</td>
<td>5.9%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

*Performance returns are reported gross of manager fees.

*Fiscal year ends June 30.

- The Fund’s performance over the five-year period was 6.4%, ranking in the bottom quartile of a peer universe. However, the Fund’s risk-adjusted returns ranks very highly over this period. The Fund’s Sharpe and Sortino Ratios rank in the 4th and 5th percentiles, respectively over this period.

- Over the past three years, the Fund returned 7.3% per annum, ranking in the bottom half of a peer universe. However, the Fund’s Sharpe and Sortino Ratios rank in the 2nd and 1st percentiles, respectively over this period.

- Over the last year, the Fund did not achieve it’s primary objective of surpassing the 7.5% assumed rate returning 2.7%. However, the return does rank in the 6th percentile. The Fund’s assets totaled $8.3 billion, an increase of $176 million from a year ago. The Fund experienced a net investment gain of $187 million over that time.

* Policy Index: 16% Russell 3000/ 11% Russel 3000 + 1%/ 2% 91 Day T-Bills/ 13% (50% BofAML US HY BB-B Constrained Ind/ 50% CSFB Fixed Income Arbitrage)/ 7% Barclays Global Aggregate/ 4% (60% BC Global Agg/ 30% MSCI AC World (Net)/ 10% DJ UBS Commodity Index TR)/ 14% MSCI ACWI ex USA/ 11% NCREIF Property Index/ 8% CPI + 2%/ 10% LIBOR + 3%/ 4% 91TBill + 2%

- The Fund’s performance over the five-year period was 6.4%, ranking in the bottom quartile of a peer universe. However, the Fund's risk-adjusted returns ranks very highly over this period. The Fund’s Sharpe and Sortino Ratios rank in the 4th and 5th percentiles, respectively over this period.

- Over the past three years, the Fund returned 7.3% per annum, ranking in the bottom half of a peer universe. However, the Fund’s Sharpe and Sortino Ratios rank in the 2nd and 1st percentiles, respectively over this period.

- Over the last year, the Fund did not achieve it's primary objective of surpassing the 7.5% assumed rate returning 2.7%. However, the return does rank in the 6th percentile. The Fund’s assets totaled $8.3 billion, an increase of $176 million from a year ago. The Fund experienced a net investment gain of $187 million over that time.
### Arizona Public Safety Retirement Trust

#### Total Fund Risk/Return

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>1 Years Ending December 31, 2015</th>
<th>3 Years Ending December 31, 2015</th>
<th>5 Years Ending December 31, 2015</th>
<th>10 Years Ending December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona PSPRS Trust</td>
<td>Anlzd Ret: 2.7%</td>
<td>Rank: 6</td>
<td>Anlzd Std Dev: 3.9%</td>
<td>Rank: 5</td>
</tr>
<tr>
<td>Policy Index</td>
<td>Anlzd Ret: 1.1%</td>
<td>Rank: 34</td>
<td>Anlzd Std Dev: 6.0%</td>
<td>Rank: 28</td>
</tr>
<tr>
<td>PSPRS W/T NCREIF</td>
<td>Anlzd Ret: 3.5%</td>
<td>Rank: 2</td>
<td>Anlzd Std Dev: 3.8%</td>
<td>Rank: 5</td>
</tr>
<tr>
<td>60% MSCI World (Gross) / 40% CITI WGBI</td>
<td>Anlzd Ret: -1.4%</td>
<td>Rank: 91</td>
<td>Anlzd Std Dev: 8.3%</td>
<td>Rank: 94</td>
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<tr>
<td>InvestorForce Public DB &gt; $1B Gross Median</td>
<td>Anlzd Ret: 0.4%</td>
<td>Rank: --</td>
<td>Anlzd Std Dev: 6.8%</td>
<td>Rank: --</td>
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</table>

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Anlzd Ret: 7.3%</th>
<th>Rank: 56</th>
<th>Anlzd Std Dev: 4.0%</th>
<th>Rank: 4</th>
<th>Sharpe Ratio: 1.8</th>
<th>Rank: 2</th>
<th>Sortino Ratio: 4.4</th>
<th>Rank: 1</th>
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<tbody>
<tr>
<td>Policy Index</td>
<td>Anlzd Ret: 6.3%</td>
<td>Rank: 77</td>
<td>Anlzd Std Dev: 5.0%</td>
<td>Rank: 7</td>
<td>Sharpe Ratio: 1.3</td>
<td>Rank: 43</td>
<td>Sortino Ratio: 2.7</td>
<td>Rank: 20</td>
</tr>
<tr>
<td>PSPRS W/T NCREIF</td>
<td>Anlzd Ret: 8.0%</td>
<td>Rank: 39</td>
<td>Anlzd Std Dev: 3.9%</td>
<td>Rank: 3</td>
<td>Sharpe Ratio: 2.1</td>
<td>Rank: 1</td>
<td>Sortino Ratio: 4.9</td>
<td>Rank: 1</td>
</tr>
<tr>
<td>60% MSCI World (Gross) / 40% CITI WGBI</td>
<td>Anlzd Ret: 5.0%</td>
<td>Rank: 91</td>
<td>Anlzd Std Dev: 7.2%</td>
<td>Rank: 86</td>
<td>Sharpe Ratio: 0.7</td>
<td>Rank: 96</td>
<td>Sortino Ratio: 1.7</td>
<td>Rank: 80</td>
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<tr>
<td>InvestorForce Public DB &gt; $1B Gross Median</td>
<td>Anlzd Ret: 7.5%</td>
<td>Rank: --</td>
<td>Anlzd Std Dev: 6.3%</td>
<td>Rank: --</td>
<td>Sharpe Ratio: 1.2</td>
<td>Rank: --</td>
<td>Sortino Ratio: 2.3</td>
<td>Rank: --</td>
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<table>
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<tr>
<th>Fund Name</th>
<th>Anlzd Ret: 6.4%</th>
<th>Rank: 78</th>
<th>Anlzd Std Dev: 4.7%</th>
<th>Rank: 4</th>
<th>Sharpe Ratio: 1.4</th>
<th>Rank: 4</th>
<th>Sortino Ratio: 2.1</th>
<th>Rank: 5</th>
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<tr>
<td>Policy Index</td>
<td>Anlzd Ret: 6.4%</td>
<td>Rank: 78</td>
<td>Anlzd Std Dev: 5.8%</td>
<td>Rank: 5</td>
<td>Sharpe Ratio: 1.1</td>
<td>Rank: 29</td>
<td>Sortino Ratio: 1.8</td>
<td>Rank: 19</td>
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<tr>
<td>PSPRS W/T NCREIF</td>
<td>Anlzd Ret: 7.4%</td>
<td>Rank: 48</td>
<td>Anlzd Std Dev: 4.5%</td>
<td>Rank: 3</td>
<td>Sharpe Ratio: 1.6</td>
<td>Rank: 1</td>
<td>Sortino Ratio: 2.5</td>
<td>Rank: 2</td>
</tr>
<tr>
<td>60% MSCI World (Gross) / 40% CITI WGBI</td>
<td>Anlzd Ret: 5.0%</td>
<td>Rank: 95</td>
<td>Anlzd Std Dev: 8.2%</td>
<td>Rank: 82</td>
<td>Sharpe Ratio: 0.6</td>
<td>Rank: 98</td>
<td>Sortino Ratio: 1.0</td>
<td>Rank: 96</td>
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<tr>
<td>InvestorForce Public DB &gt; $1B Gross Median</td>
<td>Anlzd Ret: 7.3%</td>
<td>Rank: --</td>
<td>Anlzd Std Dev: 7.3%</td>
<td>Rank: --</td>
<td>Sharpe Ratio: 1.0</td>
<td>Rank: --</td>
<td>Sortino Ratio: 1.4</td>
<td>Rank: --</td>
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<table>
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<tr>
<th>Fund Name</th>
<th>Anlzd Ret: 4.7%</th>
<th>Rank: 94</th>
<th>Anlzd Std Dev: 8.9%</th>
<th>Rank: 25</th>
<th>Sharpe Ratio: 0.4</th>
<th>Rank: 85</th>
<th>Sortino Ratio: 0.6</th>
<th>Rank: 90</th>
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</thead>
<tbody>
<tr>
<td>Policy Index</td>
<td>Anlzd Ret: 4.0%</td>
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<td>Anlzd Std Dev: 10.0%</td>
<td>Rank: 62</td>
<td>Sharpe Ratio: 0.3</td>
<td>Rank: 99</td>
<td>Sortino Ratio: 0.4</td>
<td>Rank: 99</td>
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<tr>
<td>PSPRS W/T NCREIF</td>
<td>Anlzd Ret: 5.5%</td>
<td>Rank: 73</td>
<td>Anlzd Std Dev: 8.9%</td>
<td>Rank: 25</td>
<td>Sharpe Ratio: 0.5</td>
<td>Rank: 48</td>
<td>Sortino Ratio: 0.6</td>
<td>Rank: 72</td>
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<tr>
<td>60% MSCI World (Gross) / 40% CITI WGBI</td>
<td>Anlzd Ret: 5.0%</td>
<td>Rank: 83</td>
<td>Anlzd Std Dev: 10.8%</td>
<td>Rank: 87</td>
<td>Sharpe Ratio: 0.4</td>
<td>Rank: 93</td>
<td>Sortino Ratio: 0.6</td>
<td>Rank: 85</td>
</tr>
<tr>
<td>InvestorForce Public DB &gt; $1B Gross Median</td>
<td>Anlzd Ret: 5.9%</td>
<td>Rank: --</td>
<td>Anlzd Std Dev: 9.6%</td>
<td>Rank: --</td>
<td>Sharpe Ratio: 0.5</td>
<td>Rank: --</td>
<td>Sortino Ratio: 0.7</td>
<td>Rank: --</td>
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</table>
## Arizona Public Safety Retirement Trust

### Total Fund Asset Growth Summary

#### Sources of Portfolio Growth

<table>
<thead>
<tr>
<th></th>
<th>Last Three Months</th>
<th>Fiscal Year-To-Date</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Market Value</td>
<td>$8,171,654,063</td>
<td>$8,337,393,236</td>
<td>$8,116,192,597</td>
<td>$6,933,202,340</td>
<td>$6,632,085,113</td>
</tr>
<tr>
<td>Net Additions/Withdrawals</td>
<td>$6,783,747</td>
<td>$35,990,489</td>
<td>-$11,042,517</td>
<td>-$149,824,639</td>
<td>-$649,201,203</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>$113,961,343</td>
<td>-$80,984,571</td>
<td>$187,249,073</td>
<td>$1,509,021,452</td>
<td>$2,309,515,244</td>
</tr>
<tr>
<td>Ending Market Value</td>
<td>$8,292,399,153</td>
<td>$8,292,399,153</td>
<td>$8,292,399,153</td>
<td>$8,292,399,153</td>
<td>$8,292,399,153</td>
</tr>
</tbody>
</table>
### Arizona Public Safety Retirement Trust

**Total Fund Asset Allocation vs. Policy Targets**

<table>
<thead>
<tr>
<th>Policy</th>
<th>Current</th>
<th>IF &gt;$1Billion Median Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>15.7%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Non-US Equity</td>
<td>10.6%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>7.2%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Global Asset Allocation</td>
<td>9.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>3.6%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Private Credit</td>
<td>9.8%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15.1%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>4.3%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>8.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset Allocation vs. Target</th>
<th>Current</th>
<th>Current</th>
<th>Policy Difference*</th>
<th>Policy Range</th>
<th>Within Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>$1,305,186,828</td>
<td>16.7%</td>
<td>16.0%</td>
<td>0.3%</td>
<td>11.0% - 21.0%</td>
</tr>
<tr>
<td>Non-US Equity</td>
<td>$1,141,043,782</td>
<td>13.8%</td>
<td>14.0%</td>
<td>-0.2%</td>
<td>10.0% - 18.0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>$594,391,442</td>
<td>7.2%</td>
<td>7.0%</td>
<td>0.2%</td>
<td>3.0% - 11.0%</td>
</tr>
<tr>
<td>Global Asset Allocation</td>
<td>$786,825,548</td>
<td>9.5%</td>
<td>10.0%</td>
<td>-0.5%</td>
<td>6.0% - 14.0%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>$295,357,302</td>
<td>3.6%</td>
<td>4.0%</td>
<td>-0.4%</td>
<td>0.0% - 8.0%</td>
</tr>
<tr>
<td>Private Credit</td>
<td>$811,446,245</td>
<td>9.8%</td>
<td>13.0%</td>
<td>-3.2%</td>
<td>7.0% - 16.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>$1,256,059,116</td>
<td>15.1%</td>
<td>11.0%</td>
<td>4.1%</td>
<td>7.0% - 17.0%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>$356,405,343</td>
<td>4.3%</td>
<td>5.0%</td>
<td>-0.7%</td>
<td>0.0% - 9.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>$879,757,238</td>
<td>10.6%</td>
<td>10.0%</td>
<td>0.6%</td>
<td>5.0% - 15.0%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>$709,265,547</td>
<td>8.6%</td>
<td>8.0%</td>
<td>0.6%</td>
<td>5.0% - 11.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>$156,660,763</td>
<td>1.9%</td>
<td>2.0%</td>
<td>-0.1%</td>
<td>0.0% - 6.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$8,292,399,153</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Difference between Policy and Current Allocation

*Cash Allocation includes Sec Lend Impairment.

*Policy Index: 16% Russell 3000/ 11% Russel 3000 + 1%/ 2% 91 Day T-Bills/ 13% (50% BofAML US HY BB-B Constrained Ind/50% CSFB Fixed Income Arbitrage)/ 7% Barclays Global Aggregate/ 4% (60% BC Global Agg/ 30% MSCI AC World (Net)/ 10% DJ UBS Commodity Index TR)/ 14% MSCI ACWI ex USA/ 11% NCREIF Property Index/ 8% CPI + 2%/ 10% LIBOR + 3%/ 4% 91T Bill + 2%
Arizona Public Safety Retirement Trust

Total Fund Asset Allocation History

Asset Allocation History

% Allocation (Actual)

- U.S. Equity
- Non-US Equity
- Fixed Income
- Global Asset Allocation
- Private Credit
- Absolute Return
- Real Assets
- Real Estate
- Cash

Year:
- 2011
- 2012
- 2013
- 2014
- 2015
Arizona Public Safety Retirement Trust

Total Fund Risk/Return

1 Year Ending December 31, 2015

- Annualized Return vs. Annualized Standard Deviation
- 72 Portfolios

3 Years Ending December 31, 2015

- Annualized Return vs. Annualized Standard Deviation
- 66 Portfolios

*72 observations for this specific universe.

*66 observations for this specific universe.
Arizona Public Safety Retirement Trust

Total Fund Risk Statistics vs. Peer Universe

Arizona PSPRS Trust vs. InvestorForce Public DB > $1B Gross (USD) (peer)
1 Year

**Arizona PSPRS Trust**
- Value: 2.7
- %tile: 5
- Policy Index Value: 1.1
- Policy Index %tile: 34

**Universe**
- 5th %tile: 2.7
- 25th %tile: 1.3
- Median: 0.4
- 75th %tile: -0.6
- 95th %tile: -2.5
Arizona Public Safety Retirement Trust

Total Fund Risk Statistics vs. Peer Universe

Arizona PSPRS Trust vs. InvestorForce Public DB > $1B Gross (USD) (peer)

3 Years

Anlzd Return

- Arizona PSPRS Trust
  - Value: 7.3
  - %tile: 56

- Policy Index
  - Value: 6.3
  - %tile: 77

Universe
- 5th %tile: 9.5
- 25th %tile: 8.4
- Median: 7.5
- 75th %tile: 6.4
- 95th %tile: 3.8

Anlzd Alpha

- Arizona PSPRS Trust
  - Value: 2.7
  - %tile: 7

- Policy Index
  - Value: 0.0
  - %tile: 76

Anlzd Standard Deviation

- Arizona PSPRS Trust
  - Value: 4.0
  - %tile: 4

- Policy Index
  - Value: 5.0
  - %tile: 7

Universe
- 5th %tile: 4.8
- 25th %tile: 5.6
- Median: 6.3
- 75th %tile: 6.9
- 95th %tile: 7.4

Sharpe Ratio

- Arizona PSPRS Trust
  - Value: 1.8
  - %tile: 2

- Policy Index
  - Value: 1.3
  - %tile: 43

Universe
- 5th %tile: 1.6
- 25th %tile: 1.4
- Median: 1.2
- 75th %tile: 1.0
- 95th %tile: 0.7

Sortino Ratio

- Arizona PSPRS Trust
  - Value: 4.4
  - %tile: 4

- Policy Index
  - Value: 2.7
  - %tile: 20

Universe
- 5th %tile: 3.1
- 25th %tile: 2.6
- Median: 2.3
- 75th %tile: 1.8
- 95th %tile: 1.3
Arizona Public Safety Retirement Trust

Total Fund Risk/Return

*64 observations for this specific universe.

*51 observations for this specific universe.
Arizona Public Safety Retirement Trust
Total Fund Risk Statistics vs. Peer Universe

Arizona PSPRS Trust vs. InvestorForce Public DB > $1B Gross (USD) (peer)
5 Years

- **Anzld Return**
  - Arizona PSPRS Trust: Value 6.4, %tile 78
  - Policy Index: Value 6.4, %tile 78

- **Anzld Alpha**
  - Arizona PSPRS Trust: Value 1.6, %tile 11
  - Policy Index: Value 0.0, %tile 72

- **Anzld Standard Deviation**
  - Arizona PSPRS Trust: Value 4.7, %tile 4
  - Policy Index: Value 5.8, %tile 5

- **Sharpe Ratio**
  - Arizona PSPRS Trust: Value 1.4, %tile 4
  - Policy Index: Value 1.1, %tile 29

- **Sortino Ratio**
  - Arizona PSPRS Trust: Value 2.1, %tile 5
  - Policy Index: Value 1.8, %tile 19

- **Universe**
  - 5th %tile: 8.3, 25th %tile: 7.9, Median: 7.3, 75th %tile: 6.5, 95th %tile: 4.8

- **Universe**
  - 5th %tile: 2.0, 25th %tile: 1.0, Median: 0.3, 75th %tile: 0.0, 95th %tile: -1.4
Arizona Public Safety Retirement Trust

Total Fund Risk Statistics vs. Peer Universe

Arizona PSPRS Trust vs. InvestorForce Public DB > $1B Gross (USD) (peer)

10 Years

Anlzd Return

Anlzd Alpha

Anlzd Standard Deviation

Sharpe Ratio

Sortino Ratio

Arizona PSPRS Trust
Value 4.7
%tile 94

Policy Index Value 4.0
%tile 99

Universe
5th %tile 6.7
25th %tile 6.2
Median 5.9
75th %tile 5.4
95th %tile 4.6

Arizona PSPRS Trust
Value 8.9
%tile 25

Policy Index Value 10.0
%tile 62

Universe
5th %tile 8.1
25th %tile 9.0
Median 9.6
75th %tile 10.5
95th %tile 11.4

Arizona PSPRS Trust
Value 0.4
%tile 85

Policy Index Value 0.3
%tile 99

Universe
5th %tile 0.6
25th %tile 0.5
Median 0.5
75th %tile 0.4
95th %tile 0.3

Arizona PSPRS Trust
Value 0.6
%tile 90

Policy Index Value 0.4
%tile 99

Universe
5th %tile 0.9
25th %tile 0.8
Median 0.7
75th %tile 0.6
95th %tile 0.5

December 31, 2015
Arizona Public Safety Retirement Trust

Rolling 5 Year Excess Returns
Arizona Public Safety Retirement Trust

Total Fund Attribution Analysis

**Attribution Summary**

<table>
<thead>
<tr>
<th>1 Year Ending December 31, 2015</th>
<th>Wtd. Actual Return</th>
<th>Wtd. Index Return</th>
<th>Excess Return</th>
<th>Selection Effect</th>
<th>Allocation Effect</th>
<th>Interaction Effects</th>
<th>Total Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>-0.7%</td>
<td>0.5%</td>
<td>-1.2%</td>
<td>-0.2%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>-4.3%</td>
<td>-5.7%</td>
<td>1.4%</td>
<td>0.2%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Global Asset Allocation</td>
<td>3.0%</td>
<td>3.3%</td>
<td>-0.4%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>0.8%</td>
<td>-3.2%</td>
<td>4.0%</td>
<td>0.3%</td>
<td>-0.1%</td>
<td>0.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Private Credit</td>
<td>4.8%</td>
<td>-1.1%</td>
<td>5.9%</td>
<td>0.8%</td>
<td>0.0%</td>
<td>-0.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>-3.9%</td>
<td>2.7%</td>
<td>-6.6%</td>
<td>-0.5%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>0.7%</td>
<td>2.0%</td>
<td>-1.4%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4.9%</td>
<td>13.3%</td>
<td>-8.4%</td>
<td>-0.8%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>18.7%</td>
<td>1.4%</td>
<td>-17.2%</td>
<td>1.7%</td>
<td>0.1%</td>
<td>0.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>-5.1%</td>
<td>-2.8%</td>
<td>-2.3%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.4%</td>
<td>0.0%</td>
<td>0.3%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.7%</strong></td>
<td><strong>1.1%</strong></td>
<td><strong>1.5%</strong></td>
<td><strong>1.2%</strong></td>
<td><strong>-0.1%</strong></td>
<td><strong>0.4%</strong></td>
<td><strong>1.5%</strong></td>
</tr>
</tbody>
</table>

*Plan attribution calculations are returns based and the results shown reflect the composites shown. As a result, the total results shown may vary from the calculated return shown on the performance summary.*
### Total Fund Risk Statistics

#### 1 Year Ending December 31, 2015

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
<th>Info Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Equity</strong></td>
<td>15.7%</td>
<td>-0.7%</td>
<td>50</td>
<td>12.1%</td>
<td>22</td>
<td>-1.2%</td>
<td>50</td>
<td>2.0%</td>
<td>10</td>
<td>-0.6</td>
<td></td>
</tr>
<tr>
<td>Russell 3000</td>
<td>--</td>
<td>0.5%</td>
<td>41</td>
<td>13.3%</td>
<td>53</td>
<td>0.0%</td>
<td>41</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td><strong>Non-U.S. Equity</strong></td>
<td>13.8%</td>
<td>-4.3%</td>
<td>92</td>
<td>12.9%</td>
<td>40</td>
<td>1.4%</td>
<td>92</td>
<td>2.6%</td>
<td>7</td>
<td>0.5</td>
<td>87</td>
</tr>
<tr>
<td>MSCI ACWI ex USA</td>
<td>--</td>
<td>-5.7%</td>
<td>96</td>
<td>15.1%</td>
<td>90</td>
<td>0.0%</td>
<td>96</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td><strong>Global Asset Allocation</strong></td>
<td>9.5%</td>
<td>3.0%</td>
<td>7</td>
<td>7.5%</td>
<td>39</td>
<td>-0.4%</td>
<td>7</td>
<td>7.5%</td>
<td>26</td>
<td>-0.1</td>
<td></td>
</tr>
<tr>
<td><strong>3-Month LIBOR + 3%</strong></td>
<td>--</td>
<td>3.3%</td>
<td>5</td>
<td>0.0%</td>
<td>1</td>
<td>0.0%</td>
<td>5</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>7.2%</td>
<td>0.8%</td>
<td>49</td>
<td>2.3%</td>
<td>45</td>
<td>4.0%</td>
<td>49</td>
<td>3.8%</td>
<td>53</td>
<td>1.0</td>
<td>55</td>
</tr>
<tr>
<td>Barclays Global Aggregate</td>
<td>--</td>
<td>-3.2%</td>
<td>91</td>
<td>3.1%</td>
<td>69</td>
<td>0.0%</td>
<td>91</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td></td>
</tr>
</tbody>
</table>

---

**1 Year Ending December 31, 2015**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Credit</td>
<td>9.8%</td>
<td>4.8%</td>
<td>3</td>
<td>2.5%</td>
<td>15</td>
<td>5.9%</td>
<td>3</td>
</tr>
<tr>
<td>50% BofAML US HY BB-B Constrained Ind/50%</td>
<td>--</td>
<td>-1.1%</td>
<td>35</td>
<td>3.4%</td>
<td>44</td>
<td>0.0%</td>
<td>35</td>
</tr>
<tr>
<td>CSFB Fixed Income Arbitrage</td>
<td>--</td>
<td>2.7%</td>
<td>53</td>
<td>1.2%</td>
<td>1</td>
<td>0.0%</td>
<td>55</td>
</tr>
<tr>
<td>Real Assets</td>
<td>8.6%</td>
<td>-3.9%</td>
<td>65</td>
<td>3.6%</td>
<td>24</td>
<td>-6.6%</td>
<td>93</td>
</tr>
<tr>
<td>CPI + 2 %</td>
<td>--</td>
<td>2.7%</td>
<td>53</td>
<td>1.2%</td>
<td>1</td>
<td>0.0%</td>
<td>55</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>4.3%</td>
<td>0.7%</td>
<td>--</td>
<td>4.0%</td>
<td>--</td>
<td>-1.4%</td>
<td>--</td>
</tr>
<tr>
<td>91TBill + 2%</td>
<td>--</td>
<td>2.0%</td>
<td>--</td>
<td>0.0%</td>
<td>--</td>
<td>0.0%</td>
<td>--</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10.6%</td>
<td>4.9%</td>
<td>92</td>
<td>4.5%</td>
<td>61</td>
<td>-8.4%</td>
<td>99</td>
</tr>
<tr>
<td>NCREIF Property Index</td>
<td>--</td>
<td>13.3%</td>
<td>38</td>
<td>5.4%</td>
<td>69</td>
<td>0.0%</td>
<td>34</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15.1%</td>
<td>18.7%</td>
<td>3</td>
<td>5.6%</td>
<td>40</td>
<td>17.2%</td>
<td>1</td>
</tr>
<tr>
<td>Russell 3000 + 1%</td>
<td>--</td>
<td>1.4%</td>
<td>82</td>
<td>13.2%</td>
<td>92</td>
<td>0.0%</td>
<td>79</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>3.6%</td>
<td>-5.1%</td>
<td>--</td>
<td>6.6%</td>
<td>--</td>
<td>-2.3%</td>
<td>--</td>
</tr>
<tr>
<td>60% BC Global Agg /30% MSCI AC World (Net) /10%</td>
<td>--</td>
<td>-2.8%</td>
<td>--</td>
<td>4.5%</td>
<td>--</td>
<td>0.0%</td>
<td>--</td>
</tr>
</tbody>
</table>

---

*Asset classes shown sum to less than 100% due to the exclusion of cash.*

*Composite rankings are used for Real Asset, Absolute Return, Real Estate, Private Equity and Risk Parity.*

---

**Dec 31, 2015**
### Total Fund Risk Statistics

#### 3 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
<th>Info Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>15.7%</td>
<td>13.1%</td>
<td>66</td>
<td>10.3%</td>
<td>10</td>
<td>-1.6%</td>
<td>66</td>
<td>1.7%</td>
<td>4</td>
<td>-1.0</td>
<td>--</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>--</td>
<td>14.7%</td>
<td>43</td>
<td>10.7%</td>
<td>22</td>
<td>0.0%</td>
<td>43</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>13.8%</td>
<td>2.2%</td>
<td>95</td>
<td>11.0%</td>
<td>14</td>
<td>0.7%</td>
<td>95</td>
<td>1.7%</td>
<td>1</td>
<td>0.4</td>
<td>91</td>
</tr>
<tr>
<td>MSCI ACWI ex USA</td>
<td>--</td>
<td>1.5%</td>
<td>97</td>
<td>12.3%</td>
<td>70</td>
<td>0.0%</td>
<td>97</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Global Asset Allocation</td>
<td>9.5%</td>
<td>3.6%</td>
<td>54</td>
<td>5.6%</td>
<td>18</td>
<td>0.3%</td>
<td>54</td>
<td>5.6%</td>
<td>18</td>
<td>0.1</td>
<td>52</td>
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<tr>
<td>3-Month LIBOR + 3%</td>
<td>--</td>
<td>3.3%</td>
<td>57</td>
<td>0.0%</td>
<td>1</td>
<td>0.0%</td>
<td>57</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>7.2%</td>
<td>2.0%</td>
<td>39</td>
<td>3.0%</td>
<td>60</td>
<td>3.7%</td>
<td>39</td>
<td>3.0%</td>
<td>6</td>
<td>1.2</td>
<td>19</td>
</tr>
<tr>
<td>Barclays Global Aggregate</td>
<td>--</td>
<td>-1.7%</td>
<td>98</td>
<td>4.0%</td>
<td>73</td>
<td>0.0%</td>
<td>98</td>
<td>0.0%</td>
<td>1</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

*Asset classes shown sum to less than 100% due to the exclusion of cash and asset classes that do not have a 3 year history.

*Composite rankings are used for Real Asset, Absolute Return, Real Estate, Private Equity and Risk Parity.

---

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
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<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>15.7%</td>
<td>13.1%</td>
<td>66</td>
<td>10.3%</td>
<td>10</td>
<td>-1.6%</td>
<td>66</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>--</td>
<td>14.7%</td>
<td>43</td>
<td>10.7%</td>
<td>22</td>
<td>0.0%</td>
<td>43</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>13.8%</td>
<td>2.2%</td>
<td>95</td>
<td>11.0%</td>
<td>14</td>
<td>0.7%</td>
<td>95</td>
</tr>
<tr>
<td>MSCI ACWI ex USA</td>
<td>--</td>
<td>1.5%</td>
<td>97</td>
<td>12.3%</td>
<td>70</td>
<td>0.0%</td>
<td>97</td>
</tr>
<tr>
<td>Global Asset Allocation</td>
<td>9.5%</td>
<td>3.6%</td>
<td>54</td>
<td>5.6%</td>
<td>18</td>
<td>0.3%</td>
<td>54</td>
</tr>
<tr>
<td>3-Month LIBOR + 3%</td>
<td>--</td>
<td>3.3%</td>
<td>57</td>
<td>0.0%</td>
<td>1</td>
<td>0.0%</td>
<td>57</td>
</tr>
<tr>
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<td>4.0%</td>
<td>73</td>
<td>0.0%</td>
<td>98</td>
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</table>

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*Asset classes shown sum to less than 100% due to the exclusion of cash and asset classes that do not have a 3 year history.

*Composite rankings are used for Real Asset, Absolute Return, Real Estate, Private Equity and Risk Parity.
### Total Fund Risk Statistics

#### 5 Years Ending December 31, 2015

<table>
<thead>
<tr>
<th>% of Tot</th>
<th>Anlzd Ret</th>
<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
<th>Tracking Error</th>
<th>Rank</th>
<th>Info Ratio</th>
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<td>11.1%</td>
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<td>74</td>
<td>0.0%</td>
<td>96</td>
<td>0.0%</td>
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#### 5 Years Ending December 31, 2015

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<th>% of Tot</th>
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<th>Rank</th>
<th>Anlzd Std Dev</th>
<th>Rank</th>
<th>Ann Excess BM Return</th>
<th>Rank</th>
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<td>3.5%</td>
<td>--</td>
<td>5.8%</td>
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<tr>
<td>91TBill + 2%</td>
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<td>0.0%</td>
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<tr>
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<td>6.1%</td>
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<td>Russell 3000 + 1%</td>
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<td>13.2%</td>
<td>27</td>
<td>12.0%</td>
<td>93</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

*Asset classes shown sum to less than 100% due to the exclusion of cash and asset classes that do not have a 5 year history.*

*Composite rankings are used for Real Asset, Absolute Return, Real Estate and Private Equity.*
Current US Equity Structure

Global Equity Portfolio
30% Target – 29.5% Actual ($2,446 mm)

US Equity
16% Target – 15.7% Actual ($1,305 mm)
Benchmark Russell 3000
Passive : Active: Portable Alpha and L/S= 33%:33%:33%

International Equity
14% Target

US Passive
5.67% Target (35.5%)
$493 mm (38%)
SSgA Index Fund
$493 mm
R 3000
Acadian US Managed
$158 Million
Gotham 1000 Value
$59 mm
Gotham Inst. Select
$57 mm

US Active Long Only
4.67% Target (29%)
$400 mm (31%)
Eagle
Small Cap Growth
$43 mm
Gotham 2000 Value
$12 mm
Ranger
Small Cap Growth
$24 mm
THB Micro-Cap
$30 mm
THB Small Cap
$17 mm

Portable Alpha/Equity Long/Short
5.67% Target (35.5%)
$413 mm (31%)
SouthPoint
$83 mm
Gotham Hedge Funds
$65 mm
Crestline Alpha
$219 Million
SSgA Beta Overlay
$200 (notional)
$46 NAV

Global Equity Portfolio
30% Target – 29.5% Actual ($2,446 mm)
Current Non-U.S. Equity Structure

Global Equity Portfolio
30% Target – 29.5% Actual ($2,446 mm)

US Equity Exposure
16%

Non-US Equity Exposure 14% Target – 13.8% Actual ($1,141 mm)
Benchmark: MSCI ACWI ex-US (80% DM + 20% EM)
Geographic Target: 65% DM + 35% EM
Strategy Target: 40% Passive + 60%

Passive 5.6% Target
(80% DM + 20% EM)
9.4% Actual ($780 mm)
SSgA
$780 mm
Benchmark: MSCI ACWI ex-US

Active 8.4% Target
(55% DM + 45% EM)
4.4% Actual ($361 mm)
Gotham Inst.
$40 mm
MSCI ACWI ex-US
SEG Baxter
$106 mm
MSCI ACWI ex-US
BGI Frontier Markets
$49 mm
MSCI EM
ESG Cross Border
$70 mm
MSCI EM
ETFs (Staff)
$58 mm
MSCI ACWI ex-US

MSCI ACWI ex-US
Benchmark: MSCI ACWI ex-US

Gotham 400
$38 mm
MSCI ACWI ex-US

SEG Baxter
$106 mm
MSCI ACWI ex-US

BGI Frontier Markets
$49 mm
MSCI EM
ESG Cross Border
$70 mm
MSCI EM
ETFs (Staff)
$58 mm
MSCI ACWI ex-US
Arizona Public Safety Retirement Trust

Equity Performance Detail

<table>
<thead>
<tr>
<th>Market Value ($)</th>
<th>% of Portfolio</th>
<th>3 Mo (%)</th>
<th>Rank</th>
<th>Fiscal YTD (%)</th>
<th>Rank</th>
<th>1 Yr (%)</th>
<th>Rank</th>
<th>3 Yrs (%)</th>
<th>Rank</th>
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<td>-1.2</td>
<td>-1.6</td>
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</table>

*Not shown: U.S. Equity Funds has a Market Value of $8.

NEPC, LLC

December 31, 2015

34
## Arizona Public Safety Retirement Trust
### Equity Performance Detail

<table>
<thead>
<tr>
<th>Fund</th>
<th>Market Value ($M)</th>
<th>% of Portfolio</th>
<th>3 Mo (%)</th>
<th>Rank</th>
<th>Fiscal YTD (%)</th>
<th>Rank</th>
<th>1 Yr (%)</th>
<th>Rank</th>
<th>3 Yrs (%)</th>
<th>Rank</th>
<th>5 Yrs (%)</th>
<th>Rank</th>
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<tr>
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<td>42</td>
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</tr>
<tr>
<td>Over/Under</td>
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<tr>
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<td>53</td>
<td>2.6</td>
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<td>6.8</td>
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*December 31, 2015*
# Arizona Public Safety Retirement Trust

## Equity Performance Detail

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**December 31, 2015**
## Arizona Public Safety Retirement Trust

### Equity Performance Detail

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Current Fixed Income Structure

Fixed Income Portfolio
8% Target – 7.2% Actual, $594 Million

US Fixed Income
5% Target
5.6% Actual ($463 M)
- US Fixed Income Internally Managed
  0% Target
  0.5% Actual $45 M
- BlackRock Core
  $198 Million
- BlackRock FIGA
  $79 Million
- Field Street
  $79 Million
- Active Bar. Cap Agg
  4% Target
  4.3% Actual $354 M
- High Yield
  1% Target
  0.8% Actual $64 M

Emerging Market Debt
3% Target
1.6% Actual ($130 M)
- Franklin Templeton
  $11 Million
- Capital Guardian
  $33 Million
- Iguazu Partners
  $86 Million
## Arizona Public Safety Retirement Trust
### Fixed Income Performance Detail

<table>
<thead>
<tr>
<th>Fund</th>
<th>Total Fixed Income</th>
<th>Fixed Income</th>
<th>Blackrock Core Active</th>
<th>Blackrock FIGA Fund</th>
<th>Field Street FI Fund</th>
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### Over/Under

- **Barclays Global Aggregate**
  - Total Fixed Income
    - Over/Under: -0.9%
    - Fiscal YTD: -0.1%
    - 3 Mo: -2.8%  
    - 1 Yr: -3.2%
    - 3 Yrs: -1.7%
    - 5 Yrs: -0.9%
  - Fixed Income
    - Over/Under: -0.6%
    - Fiscal YTD: -1.5%
  - Total Fixed Income
    - Over/Under: -0.4%
    - Fiscal YTD: 0.3%
  - Blackrock Core Active
    - Over/Under: -4.6%
    - Fiscal YTD: -6.8%
  - Blackrock FIGA Fund
    - Over/Under: -0.4%
    - Fiscal YTD: 0.7%
  - Field Street FI Fund
    - Over/Under: -0.6%
    - Fiscal YTD: -1.5%

- **eA All Global Fixed Inc Gross Median**
  - Total Fixed Income
    - Over/Under: -0.6%
    - Fiscal YTD: -0.6%
  - Fixed Income
    - Over/Under: -0.6%
  - Total Fixed Income
    - Over/Under: -0.4%
    - Fiscal YTD: 0.7%
  - Blackrock Core Active
    - Over/Under: -4.6%
    - Fiscal YTD: -6.8%
  - Blackrock FIGA Fund
    - Over/Under: -0.6%
    - Fiscal YTD: -1.5%
  - Field Street FI Fund
    - Over/Under: -0.6%
    - Fiscal YTD: -1.5%
# Arizona Public Safety Retirement Trust

## Fixed Income Performance Detail

<table>
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<tr>
<th></th>
<th>Market Value ($)</th>
<th>3 Mo (%)</th>
<th>Rank</th>
<th>Fiscal YTD (%)</th>
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Current Private Credit Structure

Private Credit
12% Target, - 9.8% Actual, $811 Million

Opportunistic
0-75% Target
- Davidson Kempner SP Op II: $75m Market Value
- TPG Opp. Partners II Commit: $100m $48m Market Value
- Czech Direct Lending: $54m Market Value
- Czech Direct Lending II: $54m Market Value
- Czech Direct Lending III: $54m Market Value
- Crestline Opps II: $33m Market Value
- Crestline Opps III: $33m Market Value
- TPG Opp. Partners III Commit: $100m $19m Market Value
- Melody Cap Partners: $27m Market Value
- Comvest Capital III: $22m Market Value
- Brightwood Fund III: $59m Market Value
- Stellus Credit I: $30m Market Value

Relative Value
0-50% Target
- PAG Special Situations Commitment: $30m $14m Market Value
- EJF Debt Opps Fund Commitment: $40m $54m Market Value
- West Face LT Opps Fund Commitment: $40m $36m Market Value
- ESG CME Fund: $54m Market Value
- Credit Opps Public: $57m Market Value
- PAG Asia Opp Fund Commitment: $40m $54m Market Value

Distressed
0-75% Target
- Apollo European Fund Commit: $125m $13m Market Value
- PNMAC Commit: $130m $28m Market Value
- Centerbridge Special Credit I Commitment: $40m $7m Market Value
- Centerbridge Special Credit II Commitment: $40m $32m Market Value
- Oak Hill Credit Fund TARP $14m Market Value
- EJF Debt Opps Fund $28m Market Value

Not shown: Stark Abs Opps, BlackRock Mtg. Inv. have a combined Market Value of $934,500
### Arizona Public Safety Retirement Trust

#### Private Credit Performance Detail

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Market Value</th>
<th>% of Portfolio</th>
<th>3 Mo (%)</th>
<th>3 Mo Rank</th>
<th>Fiscal YTD (%)</th>
<th>YTD Rank</th>
<th>1 Yr (%)</th>
<th>1 Yr Rank</th>
<th>3 Yrs (%)</th>
<th>3 Yrs Rank</th>
<th>5 Yrs (%)</th>
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*Not shown: BlackRock Mtg. Inv. has a Market Value of $420.59.
### Arizona Public Safety Retirement Trust

#### Private Credit Performance Detail

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### Arizona Public Safety Retirement Trust

#### GAA Performance Detail

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### Risk Parity Performance Detail

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Arizona Public Safety Retirement Trust

Private Equity Return Summary vs. Peer Universe

Private Equity vs. InvestorForce Public DB Private Eq Gross

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<th>25th Percentile</th>
<th>Median</th>
<th>75th Percentile</th>
<th>95th Percentile</th>
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- Private Equity
- Russell 3000 + 1%
Arizona Public Safety Retirement Trust

Real Assets Return Summary vs. Peer Universe

Real Assets vs. InvestorForce Public DB Real Assets/Commodities Gross

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<th>Median</th>
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</tbody>
</table>

- Real Assets
- CPI + 2 %
Appendix: Market Environment
US Economic Indicators

Inflation has stayed low

Unemployment steadily improving

Corporate profits slightly off secular highs

Manufacturing trending lower

Source: Bloomberg, Federal Reserve, Bureau of Labor Statistics

Source: Bloomberg, Bureau of Labor Statistics

Source: Bloomberg, Institute for Supply Management

Source: Bloomberg, Bureau of Economic Analysis

Source: Bloomberg, Institute for Supply Management
International Economic Indicators

Inflation remains muted

![Graph showing inflation rates for Japan and Euro CPI from Jan 04 to May 15.](image)

Source: Bloomberg, Japan Ministry of Internal Affairs and Communications, Eurostat

Europe employment recovery lagging

![Graph showing unemployment rates for Europe and Japan from Dec 00 to Feb 15.](image)

Source: Bloomberg, Japan Ministry of Internal Affairs and Communications, Eurostat

Manufacturing in developed economies has lagged

![Graph showing YoY change in manufacturing for Germany, France, Italy, and Japan from Dec 05 to Apr 15.](image)

Source: Bloomberg, OECD, Eurostat

Leading indicators mostly neutral

![Graph showing OECD Leading Indicator SA for Euro Area, Japan, UK, and Canada from Nov 05 to Mar 15.](image)

Source: Bloomberg, OECD
EM inflation is varied by country

Relatively healthy Debt/GDP ratios

Little improvement in account balance challenged countries

Emerging economies make up >50% of global output

Source: Bloomberg
Source: Bloomberg, IMF
Source: Bloomberg
Source: Bloomberg, IMF
Volatility

Equity volatility has seen recent spike and decline

Treasury rates experiencing periods of higher volatility

Sustained uptick in currency volatilities

Commodity pricing volatility has increased

Source: Bloomberg, CBOE

Source: Bloomberg, Merrill Lynch

Source: Bloomberg, Deutsche Bank

Source: Bloomberg, Merrill Lynch
Major central bank policy divergence

Fed’s ideal rate of policy firming above market expectations

Many developed central banks have maintained low interest rates

EM central bank policies have varied by circumstance

Source: Bloomberg, Federal Reserve, Bank of Japan, ECB, NEPC

Source: Bloomberg, Federal Reserve, NEPC

Source: Bloomberg

Source: Bloomberg

December 31, 2015
Global Equity

Global valuations are mixed

Earnings growth trending lower

Margins elevated, but largely a US story

Global equity returns have been mixed
Valuations near or above historical norms

Growth recovery marked by inconsistency

Profit margins remain elevated

Trailing performance is positive in near term

Source: Bloomberg, Standard and Poors, Russell
*Russell 2000 PE is index adjusted positive

Source: Bloomberg, Bureau of Economic Analysis

Source: Bloomberg, Standard and Poors, Russell
**International Equity**

**PEs near historical medians**

- Europe: PE Ratio
- Japan: PE Ratio
- United Kingdom: PE Ratio

- +1 Std Dev
- -1 Std Dev
- 12/31/2014
- 12/31/2015

Source: Bloomberg, MSCI, FTSE *UK represented by FTSE 100 Index

**Margins elevated but not at extremes**

- MSCI EAFE

Source: Bloomberg, MSCI

**Slow Global Growth**

- Eurozone
- Japan
- UK

Source: Bloomberg

**Returns pulled lower by dollar strength**

- 3 Month Return
- 1 Yr Return

Source: Bloomberg, MSCI

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**December 31, 2015**
Emerging Markets Equity

Regional valuations show divergence

Profit margins in line with history

Small cap EM issues have outperformed

Source: Bloomberg, MSCI

Source: Bloomberg
Global Equity by Sector

Energy returns sharply negative

S&P 500 sectors mostly positive in near term

Returns negative across sectors over one year

Global energy sector weight has fallen

Source: Bloomberg, MSCI

Source: Bloomberg, Standard and Poors

Source: Bloomberg, MSCI

Source: Bloomberg, MSCI

December 31, 2015
Developed currencies mostly negative versus the dollar

EM currencies have suffered in unique fashions

Yen expected to decline versus USD

Recent dollar strength pronounced
Spread levels above historical medians

Most yields have increased

Similar yield/duration tradeoff among major US indices

Negative high yield returns driven by energy distress
International Developed Fixed Income

European periphery yields at small premium relative to Germany

Global yields are at or near historic lows

Low global yields relative to duration

Global bonds negative over one year in USD terms

Source: Barclays, Bloomberg. *European periphery spreads are over equivalent German Bund

Source: Bloomberg

Source: Bloomberg, Citigroup, Barclays
Emerging Markets Fixed Income

**Spreads have widened recently**

- EMBI Glob Div
- EMBI Glob Div IG
- EMBI Glob Div HY
- CEMBI Div Broad IG
- CEMBI Div Broad HY

**EM yields higher versus global counterparts**

- JPM EMBI Composite
- JPM GBI-EM Glob Div
- CEMBI IG
- CEMBI HY
- EMBI HY
- EMBI IG

**Emerging market bond yield changes have varied directionally**

- Month End Yield
- 3-Mo Previous Yield
- 1 Yr Previous Yield

**Currency effect pronounced in EMD returns**

- JPM EMBI Glob Div
- JPM GBI-EM Glob Div
- CEMBI IG
- CEMBI HY
- ELMI+ Comp

Source: Bloomberg, JP Morgan

Source: Bloomberg

December 31, 2015
Treasury yield curve moderately rising

UK and German yield curves have shifted slightly upwards

Global yield curves have mostly flattened

Global yields have trended lower over long term

Source: Bloomberg

December 31, 2015
Long duration yields have fallen over last few years even with recent uptick

Lower yields driven by low inflation expectations and real rates

Yields are low but spreads above historic averages

Returns recently negative

Source: Bloomberg, Citigroup, Barclays

Source: Bloomberg, US Treasury, Barclays, NEPC

Source: Bloomberg, BofA Merrill Lynch, Barclays *No index for 20+ year corporate

Source: Bloomberg, Barclays

December 31, 2015
Inflation and Real Rates

**US real yields have risen slightly**

- **US 5 Yr**: Real Yields
- **US 10 Yr**: Real Yields

**Global real yields are flat to negative**

- **US 5 Yr**: Real Yields
- **Germany 4 Yr**: Real Yields
- **Britain 5 Yr**: Real Yields
- **France 5 Yr**: Real Yields
- **Australia 5 Yr**: Real Yields

**US inflation expectations very low**

**Global inflation expectations remain subdued**

- **US 10 Yr**: Inflation Breakeven
- **UK 10 Yr**: Inflation Breakeven
- **Germany 10 Yr**: Inflation Breakeven
- **France 10 Yr**: Inflation Breakeven
- **Australia 10 Yr**: Inflation Breakeven

*3-Mo data not available for Germany 4 year rate*
Inflation Sensitive Growth Assets

Yields higher relative to last year

Gradual recovery in occupancy rates

PE Ratios near or above averages

Recent MLP selloff and energy pressure

Source: Bloomberg, Alerian, Nareit, Standard and Poors

Source: Bloomberg, CB Richard Ellis

Source: Bloomberg, US Census Bureau

Source: Bloomberg, Alerian, Nareit, Standard and Poors

December 31, 2015
Commodities

Contango in major commodity futures

- Soybeans
- Oil
- Natural Gas
- Gold
- Corn
- Copper

3-Mo Future Roll Yield

Source: Bloomberg

Precipitous fall in oil prices

Crude Oil Spot (LHS)
Gold Spot (RHS)

$/Barrel

Source: Bloomberg

US fuel production closing gap with consumption

Crude oil and liquid fuels

Source: Bloomberg, US Department of Energy *Crude oil and liquid fuels

Commodity indices negative after oil-induced decline

Source: Bloomberg, Standard and Poors

December 31, 2015
Information Disclaimer

- Past performance is no guarantee of future results.
- All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.
- NEPC’s source for portfolio pricing, calculation of accruals, and transaction information is the plan’s custodian bank. Information on market indices and security characteristics is received from other sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
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Reporting Methodology

- The client’s custodian bank is NEPC’s preferred data source unless otherwise directed. NEPC generally reconciles custodian data to manager data. If the custodian cannot provide accurate data, manager data may be used.
- Trailing time period returns are determined by geometrically linking the holding period returns, from the first full month after inception to the report date. Rates of return are annualized when the time period is longer than a year. Performance is presented gross and/or net of manager fees as indicated on each page.
- For managers funded in the middle of a month, the “since inception” return will start with the first full month, although actual inception dates and cash flows are taken into account in all Composite calculations.
- This report may contain forward-looking statements that are based on NEPC’s estimates, opinions and beliefs, but NEPC cannot guarantee that any plan will achieve its targeted return or meet other goals.
Glossary of Investment Terminology—Risk Statistics

**Alpha** - Measures the relationship between the fund performance and the performance of another fund or benchmark index and equals the excess return while the other fund or benchmark index is zero.

**Alpha Jensen** - The average return on a portfolio over and above that predicted by the capital asset pricing model (CAPM), given the portfolio’s beta and the average market return. Also known as the abnormal return or the risk adjusted excess return.

**Annualized Excess Return over Benchmark** - Annualized fund return minus the annualized benchmark return for the calculated return.

**Annualized Return** - A statistical technique whereby returns covering periods greater than one year are converted to cover a 12 month time span.

**Beta** - Measures the volatility or systematic risk and is equal to the change in the fund's performance in relation to the change in the assigned index's performance.

**Information Ratio** - A measure of the risk adjusted return of a financial security, asset, or portfolio.

**Formula:**
\[
\frac{(\text{Annualized Return of Portfolio} - \text{Annualized Return of Benchmark})}{\text{Annualized Standard Deviation}}
\]

**R-Squared** - Represents the percentage of a fund’s movements that can be explained by movements in an index. R-Squared values range from 0 to 100. An R-Squared of 100 denotes that all movements of a fund are completely explained by movements in the index.

**Sharpe Ratio** - A measure of the excess return or risk premium per unit of risk in an investment asset or trading strategy.

**Sortino Ratio** - A method to differentiate between good and bad volatility in the Sharpe Ratio. The differentiation of up and down volatility allows the calculation to provide a risk adjusted measure of a security or fund’s performance without upward price change penalties.

**Standard Deviation** - The standard deviation is a statistical term that describes the distribution of results. It is a commonly used measure of volatility of returns of a portfolio, asset class, or security. The higher the standard deviation the more volatile the returns are.

**Formula:**
\[
\frac{\text{(Annualized Return of Portfolio} - \text{Annualized Return of Risk Free})}{\text{Annualized Standard Deviation}}
\]

**Tracking Error** - Tracking error, also known as residual risk, is a measure of the degree to which a portfolio tracks its benchmark. It is also a measure of consistency of excess returns. Tracking error is computed as the annualized standard deviation of the difference between a portfolio’s return and that of its benchmark.

**Formula:**
\[
\text{Tracking Error} = \frac{\text{Standard Deviation}}{\text{Period Portfolio Return} - \text{Period Benchmark Return}}
\]

**Treynor Ratio** - A risk-adjusted measure of return based on systematic risk. Similar to the Sharpe ratio with the difference being the Treynor ratio uses beta as the measurement of volatility.

**Formula:**
\[
\frac{\text{(Portfolio Average Return} - \text{Average Return of Risk-Free Rate})}{\text{Portfolio Beta}}
\]

**Up/Down Capture Ratio** - A measure of what percentage of a market's returns is "captured" by a portfolio. For example, if the market declines 10% over some period, and the manager declines only 9%, then his or her capture ratio is 90%. In down markets, it is advantageous for a manager to have as low a capture ratio as possible. For up markets, the higher the capture ratio the better. Looking at capture ratios can provide insight into how a manager achieves excess returns. A value manager might typically have a lower capture ratio in both up and down markets, achieving excess returns by protecting on the downside, whereas a growth manager might fall more than the overall market in down markets, but achieve above-market returns in a rising market.

**Upside Capture** = \[
\frac{\text{TotalReturn(FundReturns)}}{\text{TotalReturns(BMReturn)}} \text{ when Period Benchmark Return is } > = 0
\]

**Downside Capture** = \[
\frac{\text{TotalReturn(FundReturns)}}{\text{TotalReturns(BMReturn)}} \text{ when Benchmark} < 0
\]

Data Source: InvestorForce
# Of Portfolios/Observations\(^1\) - The total number of data points that make up a specified universe.

**Allocation Index\(^3\)** - The allocation index measures the value added (or subtracted) to each portfolio by active management. It is calculated monthly: The portfolio asset allocation to each category from the prior month-end is multiplied by a specified market index.

**Asset Allocation Effect\(^2\)** - Measures an investment manager’s ability to effectively allocate their portfolio’s assets to various sectors. The allocation effect determines whether the overweighting or underweighting of sectors relative to a benchmark contributes positively or negatively to the overall portfolio return. Positive allocation occurs when the portfolio is over weighted in a sector that outperforms the benchmark and underweighted in a sector that underperforms the benchmark. Negative allocation occurs when the portfolio is over weighted in a sector that underperforms the benchmark and under weighted in a sector that outperforms the benchmark.

**Agency Bonds (Agencies)\(^3\)** - The full faith and credit of the United States government is normally not pledged to payment of principal and interest on the majority of government agencies issuing these bonds, with maturities of up to ten years. Their yields, therefore, are normally higher than government and their marketability is good, thereby qualifying them as a low risk-high liquidity type of investment. They are eligible as security for advances to the member banks by the Federal Reserve, which attests to their standing.

**Asset Backed Securities (ABS)\(^3\)** - Bonds which are similar to mortgage-backed securities but are collateralized by assets other than mortgages; commonly backed by credit card receivables, auto loans, or other types of consumer financing.

**Attribution\(^3\)** - Attribution is an analytical technique that allows us to evaluate the performance of the portfolio relative to the benchmark. A proper attribution tells us where value was added or subtracted as a result of the manager’s decisions.

**Average Effective Maturity\(^4\)** - For a single bond, it is a measure of maturity that takes into account the possibility that a bond might be called back to the issuer.

For a portfolio of bonds, average effective maturity is the weighted average of the maturities of the underlying bonds. The measure is computed by weighing each bond’s maturity by its market value with respect to the portfolio and the likelihood of any of the bonds being called. In a pool of mortgages, this would also account for the likelihood of prepayments on the mortgages.

**Batting Average\(^1\)** - A measurement representing an investment manager’s ability to meet or beat an index.

*Formula: Divide the number of days (or months, quarters, etc.) in which the manager beats or matches the index by the total number of days (or months, quarters, etc.) in the period of question and multiply that factor by 100.*

**Brinson Fachler (BF) Attribution\(^1\)** - The BF methodology is a highly accepted industry standard for calculating the allocation, selection, and interaction effects within a portfolio that collectively explains a portfolio’s underlying performance. The main advantage of the BF methodology is that rather than using the overall return of the benchmark, it goes a level deeper than BHB and measures whether the benchmark sector, country, etc. outperformed/or underperformed the overall benchmark.

**Brinson Hood Beebower (BHB) Attribution\(^1\)** - The BHB methodology shows that excess return must be equal to the sum of all other factors (i.e., allocation effect, selection effect, interaction effect, etc.). The advantage to using the BHB methodology is that it is a highly accepted industry standard for calculating the allocation, selection, and interaction effects within a portfolio that collectively explains a portfolio’s underlying performance.

**Corporate Bond (Corp)\(^4\)** - A debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds.

**Correlation\(^1\)** - A range of statistical relationships between two or more random variables or observed data values. A correlation is a single number that describes the degree of relationship between variables.

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*Data Source: \(^1\)InvestorForce, \(^2\)Interaction Effect Performance Attribution, \(^3\)NEPC, LLC, \(^4\)Investopedia, \(^5\)Hedgeco.net*
Glossary of Investment Terminology

**Coupon** – The interest rate stated on a bond when it is issued. The coupon is typically paid semiannually. This is also referred to as the "coupon rate" or "coupon percent rate.”

**Currency Effect** - Is the effect that changes in currency exchange rates over time affect excess performance.

**Derivative Instrument** - A financial obligation that derives its precise value from the value of one or more other instruments (or assets) at the same point of time. For example, the relationship between the value of an S&P 500 futures contract (the derivative instrument in this case) is determined by the value of the S&P 500 Index and the value of a U.S. Treasury bill that matures at the expiration of the futures contract.

**Downside Deviation** - Equals the standard deviation of negative return or the measure of downside risk focusing on the standard deviation of negative returns.

*Formula:* 
Annualized Standard Deviation (Fund Return - Average Fund Return) where average fund return is greater than individual fund returns, monthly or quarterly.

**Duration** - Duration is a measure of interest rate risk. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates. A bond’s duration is inversely related to interest rates and directly related to time to maturity.

**Equity/Debt/Cash Ratio** - The percentage of an investment or portfolio that is in Equity, Debt, and/or Cash (i.e. A 7/89/4 ratio represents an investment that is made up of 7% Equity, 89% Debt, and 4% Cash).

**Foreign Bond** - A bond that is issued in a domestic market by a foreign entity, in the domestic market's currency. A foreign bond is most often issued by a foreign firm to raise capital in a domestic market that would be most interested in purchasing the firm's debt. For foreign firms doing a large amount of business in the domestic market, issuing foreign bonds is a common practice.

**Hard Hurdle** – is a hurdle rate that once beaten allows a fund manager to charge a performance fee on only the funds above the specified hurdle rate.

**High-Water Mark** - The highest peak in value that an investment fund/account has reached. This term is often used in the context of fund manager compensation, which is performance based. Some performance-based fees only get paid when fund performance exceeds the high-water mark. The high-water mark ensures that the manager does not get paid large sums for poor performance.

**Hurdle Rate** - The minimum rate of return on an investment required, in order for a manager to collect incentive fees from the investor, which is usually tied to a benchmark.

**Interaction Effects** - The interaction effect measures the combined impact of an investment manager’s selection and allocation decisions within a sector. For example, if an investment manager had superior selection and over weighted that particular sector, the interaction effect is positive. If an investment manager had superior selection, but underweighted that sector, the interaction effect is negative. In this case, the investment manager did not take advantage of the superior selection by allocating more assets to that sector. Since many investment managers consider the interaction effect to be part of the selection or the allocation, it is often combined with the either effect.

**Median** - The value (rate of return, market sensitivity, etc.) that exceeds one-half of the values in the population and that is exceeded by one-half of the values. The median has a percentile rank of 50.

**Modified Duration** - The percentage change in the price of a fixed income security that results from a change in yield.

**Mortgage Backed Securities (MBS)** - Bonds which are a general obligation of the issuing institution but are also collateralized by a pool of mortgages.

**Municipal Bond (Muni)** - A debt security issued by a state, municipality or county to finance its capital expenditures.

**Net Investment Change** - Is the change in an investment after accounting for all Net Cash Flows.

**Performance Fee** - A payment made to a fund manager for generating positive returns. The performance fee is generally calculated as a percentage of investment profits, often both realized and unrealized.

*Data Source:* 
¹InvestorForce, ²Interaction Effect Performance Attribution, ³NEPC, LLC, ⁴Investopedia, ⁵Hedgeco.net
Glossary of Investment Terminology

**Policy Index** - A custom benchmark designed to indicate the returns that a passive investor would earn by consistently following the asset allocation targets set forth in this investment policy statement.

**Price to Book (P/B)** - A ratio used to compare a stock’s market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter’s book value per share, also known as the "price-equity ratio".

**Price to Earnings (P/E)** - The weighted equity P/E is based on current price and trailing 12 months earnings per share (EPS).

**Price to Sales (P/S)** - A ratio for valuing a stock relative to its own past performance, other companies, or the market itself. Price to sales is calculated by dividing a stock’s current price by its revenue per share for the trailing 12 months.

**Return on Equity (ROE)** - The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.

**Selection (or Manager) Effect** - Measures the investment manager’s ability to select securities within a given sector relative to a benchmark. The over or underperformance of the portfolio is weighted by the benchmark weight, therefore, selection is not affected by the manager’s allocation to the sector. The weight of the sector in the portfolio determines the size of the effect—the larger the sector, the larger the effect is, positive or negative.

**Soft Hurdle rate** - is a hurdle rate that once beaten allows a fund manager to charge a performance fee based on the entire annualized return.

**Tiered Fee** - A fee structure that is paid to fund managers based on the size of the investment (i.e. 1.00% fee on the first $10M invested, 0.90% on the next $10M, and 0.80% on the remaining balance).

**Total Effects** - The active management (total) effect is the sum of the selection, allocation, and interaction effects. It is also the difference between the total portfolio return and the total benchmark return. You can use the active management effect to determine the amount the investment manager has added to a portfolio’s return.

**Total Return** - The actual rate of return of an investment over a specified time period. Total return includes interest, capital gains, dividends, and distributions realized over a defined time period.

**Universe** - The list of all assets eligible for inclusion in a portfolio.

**Upside Deviation** – Standard Deviation of Positive Returns

**Weighted Avg. Market Cap.** - A stock market index weighted by the market capitalization of each stock in the index. In such a weighting scheme, larger companies account for a greater portion of the index. Most indexes are constructed in this manner, with the best example being the S&P 500.

**Yield (%)** - The current yield of a security is the current indicated annual dividend rate divided by current price.

**Yield to Maturity** - The discount rate that equates the present value of cash flows, both principal and interest, to market price.

Data Source: 1InvestorForce, 2Interaction Effect Performance Attribution, 3NEPC, LLC, 4Investopedia, 5Hedgeco.net
Arizona Public Safety Personnel Retirement System

2016 Actions & Assumptions

February 24, 2016

Don Stracke, CFA, CAIA, Senior Consultant
US economic expansion continues as Federal Reserve begins policy shift
- Economic conditions and health of US consumers remain supportive for growth
- Profit margin declines and strong dollar are a challenge to corporate profitability

Central Banks continue to dictate the global investment outlook
- Path of Fed policy over next two years matters more than timing of the next Fed action
- ECB and BoJ likely to maintain and extend accommodative policies
- Easing in China is broadly stimulative but currency policy is unpredictable

Persistent strength of US dollar reveals global market weakness
- World economy has experienced a “dollar recession” as global output slows
- Dollar strength tightens global monetary conditions and strains global growth

Weak growth should not lead to a financial crisis in emerging markets
- Negative asset returns reflect adjustments necessary for future economic success
- Further political and market reforms are necessary for improved economic conditions

Stressed credit liquidity magnifies the scale of price movements
- Central bank easing and positive investor sentiment have masked deterioration in liquidity
- Credit markets ability to absorb an exodus from crowded positions could be challenged
• **Return Assumption:** Continue to evaluate long-term feasibility of actuarial rate of return assumption
  – Longer-term yields and risk premiums remain muted compared to historical (30-year) return expectations for most asset classes

• **Equities vs. Bonds:** U.S. equities still appear attractive relative to core bonds
  – Look for opportunities to rebalance during periods of increasing volatility

• **Non-US Equity:** Within the overall equity portfolio, continue to consider an overweight target allocation to developed non-U.S. equity
  – Continued stimulative monetary policy in Europe and Japan should support an improved economic environment and offers potential for upside surprises, corporate earnings poise for recovery

• **Emerging Markets:** Revisit total emerging exposure (equity and debt) for your plan
  – Determine total emerging markets exposure on a “look through” basis (including underlying EM exposure of GAA, Global Equity, Absolute Return Fixed Income, etc.)
  – Reaffirm comfort with amount of direct and indirect exposure
  – Valuations and long-term fundamentals suggest an overweight, but near term outlook is volatile

• **Core Fixed Income:** Enhance, don’t abandon, core fixed income
  – Treasury bond and TIPS exposure in traditional core portfolios provides important downside protection in volatile “risk-off” environments
  – Use of multi-sector/unconstrained fixed income can provide a good compliment to core, but should not be viewed as a stand-alone replacement
  – Private debt still attractive, especially where bank deleveraging continues (Europe)

• **Commodities:** Evaluate total exposure in the portfolio to commodity price volatility
  – Real assets (public and private), Risk Parity, GAA, and emerging markets allocations have varying degrees of commodity exposure
  – Return expectations for direct commodity exposure have continued to decline
  – Private market energy returns are becoming attractive, but use drawdown vehicles
AZPSPRS Assumptions
AZPSPRS 2016 Impact of Assumptions – The Challenge

### Expected Return
- **5-7 Year**
  - 2015: 7.25%
  - 2016: 7.1%
- **30 Year**
  - 2015: 8.3%
  - 2016: 8.2%

### Expected Volatility
- **5-7 Year**
  - 2015: 12.8%
  - 2016: 11.6%
- **30 Year**
  - 2015: 12.8%
  - 2016: 11.6%

### Sharpe Ratio
- **5-7 Year**
  - 2015: 0.43
  - 2016: 0.49
- **30 Year**
  - 2015: 0.39
  - 2016: 0.44

### Sortino Ratio
- **5-7 Year**
  - 2015: 0.70
  - 2016: 0.77
- **30 Year**
  - 2015: 0.83
  - 2016: 0.92

### Probabilities using 2016 Assumptions
- **Probability of 1-Year Return Under 0%**
  - 2016: 26.9%
- **Probability of 6-Year Return Under 0%**
  - 2016: 6.6%
- **Probability of 1-Year Return Over 7.5%**
  - 2016: 48.8%
- **Probability of 6-Year Return Over 7.5%**
  - 2016: 47.0%
- **Probability of 30-Year Return Over 7.5%**
  - 2016: 62.1%
General Client Actions
• **Influence of monetary policy provides basis for extended US economic cycle**
  - Continued growth supports accrual of risk premia even in a low expected return environment
  - Profit margin pressures and enhanced credit risk are challenges of a maturing economic cycle

• **US equity and credit markets offer reasonable risk premia**
  - Equity markets are near fair value but distortion from monetary policy supports continued positive returns
  - Pressure of stronger dollar and energy market distress are a headwind for returns
  - Focus on niche strategies and hedge funds to exploit potential volatility in equity and credit markets
Europe and Japan have faced major economic challenges
- For Japan, these challenges extend over the previous two decades
- Non-US equity returns relative to domestic are highly cyclical

Success of US monetary action galvanized unprecedented action by the European Central Bank and Bank of Japan
- Seeking positive response in both capital markets and real economy

Equities and other risky asset markets likely to benefit
- Stimulus promotes credit growth, spending and earnings
- Japanese companies flush with cash also seeking improved profitability

Hedging a portion of non-US developed currency exposure remains a strategic goal
- Dollar strength likely to persist as Fed policy lifts off
Emerging Markets Present Interesting Opportunity... But Require Patience

- **Fundamentals of emerging markets suggest higher return potential than developed world**
  - Valuations appear reasonable especially versus developed world
  - Superior real yields and fundamentals expected to flow through to higher returns over time

- **Unique risks across countries suggest caution and patience**
  - China continues slow process to delicately rebalance economy
  - Commodity dependent countries face financial challenges as they adjust to lower prices
  - Credit dependence, particularly for dollar based borrowers could cause further strain

Source: JP Morgan, Bloomberg
Massive oil selloff generated distress across commodity markets
- Impacted oil-related and other inflation sensitive assets
- Selloff in related asset classes may present opportunities for active managers and private strategies

Seek inflation sensitive asset classes that offer positive yield
- Oil futures commodity roll yield is strongly negative
- Other asset classes may offer attractive price upside

Private market strategies may be more attractive
- Patient capital can seize high return opportunities as they materialize

Seek Opportunities from Energy Distress Outside of Traditional Commodity Vehicles

Source: Alerian, Standard & Poors, Barclays, JP Morgan, Bloomberg
Strategy Implementation Views: 10 Considerations

- **Global Equity**
  - Global strategies can exploit regional divergences but is not a total equity replacement

- **Non-US Developed Equity**
  - Make use of currency hedged to fund overweight allocation

- **Emerging Market Equity**
  - Small cap and Consumer focused approach

- **Core Fixed Income**
  - Barbell Unconstrained with TIPS/Long Bonds

- **Credit Exposure**
  - Think outside the “benchmark box” dynamic credit strategies, Private Lending

- **Emerging Market Debt**
  - Blended approach and consider complementing with EM Macro HF

- **Overlay**
  - Provides disciplined rebalance approach

- **Risk Parity**
  - Risk balanced inflation-sensitive assets exposure preferrable to long only commodities

- **Inflation-Sensitive Assets**
  - Make use of multi-asset inflation focused strategies to fund private real assets

- **Opportunistic Allocations**
  - Create an opportunistic “bucket” to exploit future market dislocations
Capital Market Observations
US GDP continues to strengthen modestly
- Consumer spending supported by healthy balance sheets
- Low energy prices and debt service have provided stimulation

US economy shows resilience against headwinds
- Fed support through quantitative easing has been removed
- Dollar strength pressures profit margins of global companies
- Subdued global growth and challenges in certain emerging markets

Corporate profits begin to lag from secular highs
- Buybacks and financial engineering have buttressed earnings per share
- Profitability has begun to slow from rising dollar and wage pressures
Next steps in Fed policy closely watched but path is a bigger (and more important) unknown
- 25 basis point increase unlikely to cause economic slowdown
- Rate increases beyond market expectations could prove challenging for asset prices
- Long-term terminal Fed Funds rate determines pricing for all assets

Monetary stimulation in Europe and Japan has been effective
- Both regions require further accommodation to continue gradual economic recovery
- Effectiveness of easing may be challenged with bond yields and credit spreads relatively low
- However, zero interest rate bound has been broken, offering room for further easing
• **Positive global GDP growth masks challenges of a strong dollar**

• **World economy has suffered a “dollar recession” as global GDP in USD terms has declined by nearly $4 trillion**
  - Appreciation in US dollar strains global liquidity and reveals underlying market weakness
  - Pressures commodity markets and credit growth for international borrowers holding dollar based debt

• **Dollar strength impacts global economy in meaningful ways**
  - Improves competitiveness for countries and companies heavily reliant on exports to the US
  - Represents a headwind to US corporate earnings and exports
  - Fed is forced to balance slower interest rate increases or pushing the dollar higher

*Source: IMF*
Emerging market growth premium relative to developed world remains but is subdued
- Per Capita GDP continues to rise, pushing standard of living higher and supporting consumer growth

Initiative to reform reflects the distinct and varied outlook across countries
- Political challenges and commodity market distress are material risks for both Russia and Brazil
- Reform minded countries are realizing economic adjustments necessary for sustainable growth and economic success

Economic conditions across emerging world are distinct but China is the focus
- China remains the growth engine for the world but is transitioning to a new economic model

Source: Bloomberg

Source: IMF

Source: Bloomberg
• **Decline in fixed investment is lowering China’s growth rate**
  - Broad implications for many emerging economies and commodity producers

• **Shift is underway from an export and investment led economy to a consumer focus**
  - Adjustment is paired with ongoing market reforms to liberalize currency and financial markets
  - Continued strength of the US dollar may force a more aggressive currency adjustment from China

• **Consumer spending likely to be the economic growth engine**
  - Retail sales have been immune to the extreme stock market volatility
  - Significant capacity for long-term credit growth among households
Underlying market conditions remain fragile despite rebound from August sell-off
- Credit markets’ could be challenged to absorb exodus from crowded positions

Credit inventories lower today with less bank capital at risk
- Liquidity provisions of new regulatory model are untested in true crisis

Derivative exposure less reliable
- Variable and negative CDX basis makes hedging unpredictable

Certain factors in place that can help stave off a liquidity crisis
- Low rate policies, bullish sentiment, positive economic results

Dynamic active strategies with disciplined credit approach can exploit periods of stress

Credit Market Liquidity Warrants Caution

Source: Barclays Capital

Source: NY Federal Reserve

Source: Barclays Capital
2016 Asset Class Assumptions
We use November 30 market data for all asset class assumptions.

Combination of historical data and forward looking analysis
- Expected returns based on current market pricing and forward looking estimates
- Volatility and correlations based on history, while recognizing current uncertainty

Historical data is used to frame current market environment as well as to compare to similar historical periods
- Incorporates historical index returns, volatility, correlations, valuations, and yields

Forward-looking analysis is based on current market pricing and a building blocks approach
- Return equals yield + changes in price (valuation, defaults, etc.)
- Use of key economic observations (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.)

Assumptions prepared by Asset Allocation Committee
- Asset Allocation team plus members of various consulting practice groups meet to develop themes and assumptions
- Public markets, hedge fund and private market research teams provide insights

Assumptions and Actions reviewed and approved by Partners Research Committee
# 2016 5-to-7 Year Return Forecasts

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<thead>
<tr>
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<th>2016</th>
<th>2016-2015</th>
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* Assumption based on market weighted blend of respective components.
## 2016 30-Year Return Forecasts

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* Assumption based on market weighted blend of respective components.
### 2016 Volatility Forecasts

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<th>2016-2015</th>
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<tr>
<td>Treasuries</td>
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*Core Bonds assumption based on market weighted blend of respective components.
**Volatility adjusted to reflect smoothing methodology.
Real earnings growth assigned to each market over forecast period
Valuation input based on current P/E trending to forecast value
Profit margin adjustment shifts from current to forecast value
Dividend yield based on current yield trending to forecast value
Global inflation input of 3.0% flows through all global equity markets
• **Inflation is an integral component of our asset allocation assumptions**
  - An essential building block for projecting returns in stocks, bonds, and commodities

• **There are several measures of inflation used to inform our view, all with some type of shortcoming**
  - Global forecasts, local consumer and producer price indices, TIPS break-even inflation

• **Institutional investment pools will experience asset inflation globally, encompassing both developed and emerging countries**
  - We use a 3% global inflation forecast over 5-7 years for our equity building blocks
    • Akin to assuming purchasing power parity holds across markets
  - Can be different from inflation experienced in local country liabilities or spending needs
    • Our expectation of US CPI is 2.25% over 5-7 years and 2.75% over 30 years

• **Muted credit growth leaves inflation expectations unchanged in the near term, pressure for higher long-term inflation continues to build**
  - Money supply (M2) continued to expand while velocity remains depressed
  - Global monetary policy likely to remain stimulative in 2016

• **Given long-term inflation pressures, a modestly higher inflation assumption (3.25%) is used for determining 30 year equity return expectations**
Global Inflation Forecasts

- **World inflation forecasts range from 3.4-3.6% annually over the next five years**
  - Investment programs with a developed markets bias likely to experience less inflation than the global average

*Source: IMF*
Realized US Inflation Has Stayed Low Despite Economy Showing Capacity Improvements

Source: Bureau of Labor Statistics, Federal Reserve, Bloomberg
Negative Energy Impact on CPI Expected to Fall Off in Early 2016

Projected energy impact based off current oil futures pricing expected to push CPI to 2-2.5% in about a year.
Global Economic Factors Driving Inflation Remain Subdued

IMF World CPI

Credit Growth - 1 Yr % Change in USD

Unemployment Rates

Inflation Surprise Indices

Source: IMF, Bloomberg

Source: Bank for International Settlements

Source: Bloomberg

Source: Citigroup, Bloomberg
## 2016 Correlations

<table>
<thead>
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<th>Asset Class</th>
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<th>EMD (Ext)</th>
<th>EMD (Loc)</th>
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<th>Intl Eq (H)</th>
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<td>0.65</td>
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<td>0.75</td>
<td>0.70</td>
<td>0.80</td>
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<td>0.25</td>
<td>0.50</td>
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Major Asset Class Review (Geometric)

### NEPC 5-7 Year Assumptions

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<tbody>
<tr>
<td>Cash</td>
<td>3.42%(^1)</td>
<td>4.00%</td>
<td>3.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>1.25%</td>
<td>0.75%</td>
<td>1.50%</td>
<td>1.75%</td>
<td>1.50%</td>
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<tr>
<td>Core Bonds</td>
<td>7.70%(^2)</td>
<td>5.00%</td>
<td>5.50%</td>
<td>3.75%</td>
<td>3.00%</td>
<td>2.88%</td>
<td>2.03%</td>
<td>2.53%</td>
<td>2.30%</td>
<td>2.43%</td>
</tr>
<tr>
<td>Large Cap</td>
<td>10.05%(^3)</td>
<td>8.50%</td>
<td>9.25%</td>
<td>7.75%</td>
<td>7.00%</td>
<td>7.25%</td>
<td>6.75%</td>
<td>6.25%</td>
<td>6.00%</td>
<td>6.00%</td>
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<tr>
<td>Int'l Developed</td>
<td>8.84%(^3)</td>
<td>9.00%</td>
<td>9.75%</td>
<td>8.00%</td>
<td>7.00%</td>
<td>7.75%</td>
<td>7.75%</td>
<td>7.25%</td>
<td>7.00%</td>
<td>7.25%</td>
</tr>
</tbody>
</table>

1. Reflects average annual return since 1926
2. Reflects average annual return since 1976
3. Reflects average annual return since 1970

Source: Bloomberg, Morningstar Direct, NEPC
• Total return expectations for non-US equities are higher vs. last year

• Expectations for US equities are the same despite a relatively flat year
  – Increased spread of 1.25% for developed non-US relative to US large cap
  – Increased premium for emerging equity as valuations have become more attractive

• Meaningful downside risks remain in developed and emerging world

• While we expect investors to be compensated over 5-7 years with a higher relative return for holding non-US equities, it is appropriate to use active management to mitigate exposure to downside risks
Appendix
• **Thinking about the marginal impact on risk and return from each asset class can be useful in evaluating asset allocation decisions**
  - In the analysis that follows, the marginal impact of increasing an allocation to a given asset class is plotted for a progressive portfolio and a traditional 65/35 allocation

• **Uses mean-variance assumptions**
  - Certain limitations (particularly liquidity) should be considered outside of this framework

---

**Portfolio Efficiency: Marginal Risk and Return**

- **Ideal: Return Increased, Risk Reduced**
- **Sacrifice Return for Risk Reduction**
- **Take on Additional Risk to Achieve Higher Returns**
- **Not Ideal: Return Reduced, Risk Increased**

- **Sharpe Ratio Neutral**
• **General takeaways for a progressive allocation**
  - Emerging equities are the most attractive liquid asset classes on the margin
  - Private real assets are a beneficial complement to a private equity and debt program
  - Real estate provides a meaningful level of diversification
Themes for 2016 Asset Class Assumptions

• **5-7 year return expectations moderately higher among global equity and credit assets relative to prior year**
  – Expected return outlook broadly remains subdued
  – Recent performance of emerging markets leads to increase in expectations
  – Expectations of slow Fed policy tightening reduce cash forecasts
  – Increase in expectations for credit markets reflect higher credit spread levels
  – Hedge Fund expectations unchanged but incorporate anticipation of greater divergences across and within global markets

• **30-year returns have similar themes to 5-7 year forecasts**
  – Lower cash assumption flows through to long-term fixed income returns
  – Equity market assumptions largely unchanged

• **Volatility expectations reduced incrementally in certain asset classes**
  – Private Market reductions echo normalized environment and asset class experience
  – Volatility for emerging markets and commodities increased to reflect probability of higher risk moments
• Equity Risk Premium over 10 year Treasury is volatile
  – Stock and bond forecasts imply an Equity Risk Premium of 4.25%
  – While above the long term average, about 37.50% of observations exceed this level since 1962

• Small/Mid Cap equities have historically earned a premium over Large Cap equities
  – Trailing 5 year premium below historical average
US Large Cap Equity Building Blocks

**Real Growth and Inflation**
- US Real GDP Growth
- US CPI

**S&P 500 Profit Margin**
- Profit Margin
- Long Term Average

**S&P 500 Dividend Yield**
- Dividend Yield
- Long Term Average

**S&P 500 PE Ratio**
- PE Ratio
- Long Term Average

*Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Bloomberg*
*Source: Standard & Poors, Bloomberg*
• Developed markets supported by central bank policy
  – Low growth prospects but economic improvement can be found in Europe and Japan
  – Earnings and margins remain subdued relative to history

• Emerging growth differential is less but remains well above developed world
  – Valuations near long term average
Global equity risk premia higher relative to prior year

However, seeing increasing headwinds in private structures
- Purchase price multiples high relative to history
- Dry powder has increased, particularly in the US

Private equity assumption reflects 40% buyout, 25% growth equity, 20% secondaries, 15% venture. Public market equivalent defined as blend of 70% U.S. small/mid cap equities and 30% non-US developed market equities.
• **Spreads on public and private credit have converged**

• **Debt multiples near cycle highs**

• **Higher equity participation changes risk profile for debt**
  – Opportunity set for mezzanine has shrunk noticeably

---

Assumption Development – Private Debt

Private debt assumption reflects 50% direct lending, 25% mezzanine, 25% distressed debt. Public market equivalent defined as blend of 50% high yield bonds and 50% bank loans.
Amidst significant volatility, oil prices continued downward trend that began in Q3 2014 – Current lows are an attractive entry point for private strategies

Private strategies may mitigate financial stress in challenging market for liquid commodities

Private real assets assumption reflects 50% energy, 25% infrastructure, 25% timber/agriculture. Public market equivalent defined as blend of 50% commodities, 25% natural resource equities, 25% MLPs.
• Core real estate outlook largely unchanged over 5-7 years

• REITs are trading at discounts to NAV but still at historically high multiples
• **Global Equity Building Blocks**
  – **Inflation**: Represents global inflation expectation over forecast period
  – **Real Earnings Growth**: Represents assumption for real growth for each market
  – **Profit Margin Adjustment**: Return due to shift of profit margins to forecast value
  – **Dividend Yield**: Represents dividend yield expectation over forecast period
  – **Valuation**: Return due to shift of current price/earnings ratio to forecast value

• **Commodities Building Blocks**
  – **Valuation**: Return from commodity spot price reverting to long term real average
  – **Roll yield**: Average annual yield to roll futures contract over forecast period
  – **Cash**: Expected US cash rate over forecast period

• **Fixed Income Building Blocks**
  – **Sovereign Yield**: Average expected government bond yield over forecast period
  – **Sovereign Price Change**: Expected price change due to changes in interest rates
  – **Roll Down**: Expected price change due to ageing of a bond along the yield curve
  – **Credit Spread**: Average expected credit spread over forecast period
  – **Spread Price Change**: Return due to shift of current credit spread to forecast value
  – **Credit Deterioration**: Return from credit downgrade and default over forecast period
  – **Real Yield**: Average expected government real yield over forecast period (TIPS)
  – **Real Yield Price Change**: Expected price change due to changes in real rates
  – **Inflation Expectation**: Expected inflation accrual over the forecast period (TIPS)

• **Private Markets Building Blocks**
  – **Illiquidity Premium**: Return associated with illiquidity factor specific to asset class
  – **Relative Valuation Adjustment**: Qualitative adjustment reflecting asset class views
  – **Public Market Return**: Return associated with equivalent public market beta
• Past performance is no guarantee of future results.

• The goal of this report is to provide a basis for substantiating asset allocation recommendations. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

• Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

• All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

• This report is provided as a management aid for the client’s internal use only. This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.
It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers may not be required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager’s realm of expertise or contemplated investment strategy
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

Fiscal Year 2016 Budget with Expenses as of February 16, 2016

THIRD QUARTER
EXECUTIVE SUMMARY

TOTAL
As of February 16, the budget is projected to be under by 3.02%, mainly due to vacancy savings in personnel of $353,705. Because we are in the process of filling key positions, we are only showing savings from prior months and not projecting when they will actually be filled.

Administration
Personnel Services – The approved budget included in-grade adjustments and incentive compensation (as allowed by the State Personnel System) in the amount of $119,472, which is being held in the salaries and wages of the Administration department. We are in the final stages of mapping all our positions into the State Personnel System and will then determine where to allocate this amount.

Building
Repairs and Maintenance – Air Conditioner is over by $6,819 due to some failures on the second floor air conditioner.

Investments
Personnel Services – An analyst was hired at a lower salary than the vacant Portfolio Manager vacancy, so there will be some savings going forward for the position.
## All Departments Budget to Actual

**Public Safety Personnel Retirement System**

**Fiscal Year Projections**

02/16/16

<table>
<thead>
<tr>
<th>Budget Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
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</thead>
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<td>Personnel Services</td>
<td>6,406,247</td>
<td>3,495,058</td>
<td>2,557,484</td>
<td>353,705</td>
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<td>Education &amp; Training</td>
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<td>128,511</td>
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<td>Professional Services</td>
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<td>1,555,914</td>
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<td>225,598</td>
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<td>Furniture &amp; Equipment</td>
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<td>211,251</td>
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<td>Capital</td>
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<td><strong>All Departments Budget Total</strong></td>
<td>10,683,587</td>
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<tr>
<td>Litigation</td>
<td>250,000</td>
<td>116,624</td>
<td>133,376</td>
<td>-</td>
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<td><strong>Total With Litigation</strong></td>
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<td>Excluded Investment Due Diligence</td>
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### Column Descriptions:
- **2016 Budget** contains the budget approved by the Board of Trustees.
- **2016 Expenses** contains paid invoices to date.
- **Projected Expenses** consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- **(Over) Under** compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- **(Over) Under Budget %** is percentage of (Over) Under to 2016 Budget.
All Departments Budget to Actual  
Public Safety Personnel Retirement System  
*Fiscal Year Projections*  
02/16/16

<table>
<thead>
<tr>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under Budget %</th>
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<tr>
<td>Personnel Services</td>
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<td>Salaries &amp; Wages</td>
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<td>Fringe Benefits</td>
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<td>Payroll Expenses - Other</td>
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<td>88,707</td>
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<td>Payroll Expenses - ADOA Fees</td>
<td>12,910</td>
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<td>Total Personnel Services</td>
<td>1,543,277</td>
<td>666,622</td>
<td>655,290</td>
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<td>Education &amp; Training</td>
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<td>Travel Expense - Other</td>
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<td>Training Expense - Conferences</td>
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<td>Total Education &amp; Training</td>
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<td>Prof Services-Due Diligence Other</td>
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<td>Legal Services-Other</td>
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<td>Contractual Services</td>
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<tr>
<td>Temporary Services</td>
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<tr>
<td>Total Contractual Services</td>
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<td>Legal Services - Litigation</td>
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<td>133,376</td>
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<tr>
<td>Total Litigation</td>
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<td>Total ADM Department Budget</td>
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<td>1,355,174</td>
<td>1,252,662</td>
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All Departments Budget to Actual
Public Safety Personnel Retirement System
Fiscal Year Projections
02/16/16

<table>
<thead>
<tr>
<th>AGENCY DEPARTMENT BUDGET</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services - Other</td>
<td>500</td>
<td>232</td>
<td>268</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Agency-On Site Shredding</td>
<td>850</td>
<td>299</td>
<td>551</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Agency-Records Management</td>
<td>7,000</td>
<td>6,374</td>
<td>626</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total Professional Services</td>
<td>8,350</td>
<td>6,905</td>
<td>1,445</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing-External - Other</td>
<td>50</td>
<td>103</td>
<td>-</td>
<td>(53)</td>
<td>(106.00%)</td>
</tr>
<tr>
<td>Delivery Service</td>
<td>3,000</td>
<td>732</td>
<td>2,268</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Postage Meter</td>
<td>9,000</td>
<td>10,372</td>
<td>-</td>
<td>(1,372)</td>
<td>(15.24%)</td>
</tr>
<tr>
<td>Total Communications</td>
<td>12,050</td>
<td>11,207</td>
<td>2,268</td>
<td>(1,425)</td>
<td>(11.83%)</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copier/Printer Supplies</td>
<td>18,000</td>
<td>9,945</td>
<td>8,055</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Envelopes</td>
<td>500</td>
<td>193</td>
<td>307</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Forms</td>
<td>1,500</td>
<td>-</td>
<td>1,500</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Office Supplies - General</td>
<td>26,000</td>
<td>18,484</td>
<td>7,516</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Other Office Expense</td>
<td>3,000</td>
<td>1,835</td>
<td>1,165</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>49,000</td>
<td>30,457</td>
<td>18,543</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total AGN Department Budget</td>
<td>69,400</td>
<td>48,569</td>
<td>22,256</td>
<td>(1,425)</td>
<td>(2.05%)</td>
</tr>
</tbody>
</table>

Column Descriptions:
- 2016 Budget contains the budget approved by the Board of Trustees.
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## All Departments Budget to Actual

Public Safety Personnel Retirement System  
*Fiscal Year Projections*  
02/16/16

### BOARD OF TRUSTEES BUDGET

#### Board of Trustee

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Trustees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Trustee</td>
<td>11,000</td>
<td>5,906</td>
<td>5,094</td>
<td></td>
<td>0.00%</td>
</tr>
<tr>
<td>Board of Trustee Ed &amp; Training</td>
<td>5,500</td>
<td>4,670</td>
<td>830</td>
<td></td>
<td>0.00%</td>
</tr>
<tr>
<td>Board of Trustee Expenses - Other</td>
<td>9,250</td>
<td>22</td>
<td>9,228</td>
<td></td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Admin-Board Consultant</td>
<td>440,000</td>
<td>215,000</td>
<td>225,000</td>
<td></td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Board of Trustee</strong></td>
<td><strong>465,750</strong></td>
<td><strong>225,598</strong></td>
<td><strong>240,152</strong></td>
<td><strong>-</strong></td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

**Total BOT Department Budget**:  465,750 225,598 240,152 - 0.00%

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### BUILDING DEPARTMENT BUDGET

#### Building Expenses

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Utilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>55,000</td>
<td>32,847</td>
<td>22,153</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Janitorial</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Janitorial Services</td>
<td>22,800</td>
<td>14,360</td>
<td>8,440</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Window Cleaning</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Window Cleaning</td>
<td>1,560</td>
<td>665</td>
<td>895</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Elevator</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elevator</td>
<td>4,800</td>
<td>1,062</td>
<td>3,738</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Security System</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security System</td>
<td>360</td>
<td>422</td>
<td>-</td>
<td>(62)</td>
<td>(17.22%)</td>
</tr>
<tr>
<td><strong>Repair &amp; Maintenance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs and Maintenance - Other</td>
<td>12,000</td>
<td>8,268</td>
<td>3,732</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Rep &amp; Maint - Air Conditioning</td>
<td>20,000</td>
<td>26,819</td>
<td>-</td>
<td>(6,819)</td>
<td>(34.10%)</td>
</tr>
<tr>
<td><strong>Property &amp; Sales Taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property &amp; Sales Taxes - County</td>
<td>763</td>
<td>382</td>
<td>381</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Property &amp; Sales Taxes - City</td>
<td>3,207</td>
<td>1,870</td>
<td>1,337</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>10,600</td>
<td>9,600</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Condo Association</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Condo Association Fees</td>
<td>32,340</td>
<td>20,387</td>
<td>11,953</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Other Occupancy Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cleaning Supplies</td>
<td>420</td>
<td>273</td>
<td>147</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Lock Maintenance</td>
<td>2,000</td>
<td>451</td>
<td>1,549</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Pest Control</td>
<td>1,440</td>
<td>756</td>
<td>684</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Building Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td>167,290</td>
<td>118,162</td>
</tr>
<tr>
<td></td>
<td>118,162</td>
<td>56,009</td>
<td>(6,881)</td>
<td>(4.11%)</td>
<td></td>
</tr>
</tbody>
</table>

#### Capital

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bldg - Improve-Faucet Replace</td>
<td>3,000</td>
<td>-</td>
<td>3,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>13,000</td>
<td>100</td>
<td>12,900</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Bldg Improve - Alarm &amp; Video</td>
<td>5,250</td>
<td>34</td>
<td>5,216</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Bldg Improve - Wiring</td>
<td>5,000</td>
<td>1,732</td>
<td>3,268</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Bldg Improve - Energy Mgmt Sys</td>
<td>15,000</td>
<td>-</td>
<td>15,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Rep &amp; Maint - Safety Equipment</td>
<td>1,500</td>
<td>54</td>
<td>1,446</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Bldg Improve - Furniture &amp; Equipment</td>
<td>5,000</td>
<td>1,146</td>
<td>3,854</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td>47,750</td>
<td>3,066</td>
<td>44,684</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Total BLD Department Budget**: 215,040 121,228 100,693 (6,881) (3.20%)

**Column Descriptions:**
- 2012 Budget contains the budget approved by the Board of Trustees.
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Report: BUD-ALL-Act-Rows  Current System Date & Time: 02/16/16 12:14 PM  Page 5
## All Departments Budget to Actual
### Public Safety Personnel Retirement System
#### Fiscal Year Projections
##### 02/16/16

<table>
<thead>
<tr>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
</table>

### COMPLIANCE DEPARTMENT BUDGET

| **Personnel Services** |  |  |  |  |
|-------------------------|  |  |  |  |
| Salaries & Wages        | 167,536 | 105,711 | 61,825 | - 0.00% |
| DC Plan - ER Matching   | 10,052 | - | 10,052 | - 0.00% |
| Fringe Benefits         | 23,731 | 12,556 | 11,175 | - 0.00% |
| Payroll Expenses - Other| 32,703 | 20,397 | 12,306 | - 0.00% |
| Payroll Expenses - ADOA | 2,094 | 1,121 | 973 | - 0.00% |
| **Total Personnel Services** | 236,116 | 139,785 | 96,331 | - 0.00% |

| **Education & Training** |  |  |  |  |
|--------------------------|  |  |  |  |
| Travel Expense - Other   | 5,000 | 1,116 | 3,884 | - 0.00% |
| Training Expense - Conferences | 3,500 | 599 | 2,901 | - 0.00% |
| Training Exp - Professional Dues & Subsc | 2,500 | 1,409 | 1,091 | - 0.00% |
| Training Exp - HIPAA- Compliance | 2,000 | - | 2,000 | - 0.00% |
| **Total Education & Training** | 13,000 | 3,124 | 9,876 | - 0.00% |

| **Professional Services** |  |  |  |  |
|---------------------------|  |  |  |  |
| Prof Serv - IT Audit      | 25,000 | - | 25,000 | - 0.00% |
| **Total Professional Services** | 25,000 | - | 25,000 | - 0.00% |

| **Contractual Services** |  |  |  |  |
|--------------------------|  |  |  |  |

| **Furniture & Equipment** |  |  |  |  |
|---------------------------|  |  |  |  |
| Software                  | 1,575 | 1,083 | 492 | - 0.00% |
| **Total Furniture & Equipment** | 1,575 | 1,083 | 492 | - 0.00% |
| **Total COM Department Budget** | 275,691 | 143,992 | 131,699 | - 0.00% |

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# All Departments Budget to Actual

**Public Safety Personnel Retirement System**

**Fiscal Year Projections**

**02/16/16**

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>398,648</td>
<td>235,338</td>
<td>163,310</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>18,462</td>
<td>10,409</td>
<td>8,053</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>64,881</td>
<td>40,746</td>
<td>24,135</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>71,734</td>
<td>43,540</td>
<td>28,194</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>4,983</td>
<td>2,495</td>
<td>2,488</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>558,708</td>
<td>332,528</td>
<td>226,180</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>500</td>
<td>378</td>
<td>122</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Professional Dues &amp; Subsc</td>
<td>1,100</td>
<td>1,056</td>
<td>44</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>1,600</td>
<td>1,434</td>
<td>166</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services-Auditing</td>
<td>148,935</td>
<td>111,599</td>
<td>37,336</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Finance-Annual Report</td>
<td>3,000</td>
<td>1,095</td>
<td>1,905</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Finance-Banking</td>
<td>-</td>
<td>39</td>
<td>-</td>
<td>(39)</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Finance-Accounting Software</td>
<td>5,000</td>
<td>4,526</td>
<td>474</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>156,935</td>
<td>117,259</td>
<td>39,715</td>
<td>(39)</td>
<td>(0.02%)</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postage - Wells Fargo</td>
<td>16,500</td>
<td>4,413</td>
<td>12,087</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Communications</strong></td>
<td>16,500</td>
<td>4,413</td>
<td>12,087</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total FIN Department Budget</strong></td>
<td>733,743</td>
<td>455,634</td>
<td>278,148</td>
<td>(39)</td>
<td>(0.01%)</td>
</tr>
</tbody>
</table>

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- (Over) Under compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
### INVESTMENTS DEPARTMENT BUDGET

#### Personnel Services

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,143,531</td>
<td>629,207</td>
<td>458,175</td>
<td>56,149</td>
<td>4.91%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>65,372</td>
<td>40,770</td>
<td>21,233</td>
<td>3,369</td>
<td>5.15%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>91,867</td>
<td>48,980</td>
<td>38,953</td>
<td>3,934</td>
<td>4.28%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>188,987</td>
<td>102,510</td>
<td>75,907</td>
<td>10,570</td>
<td>5.59%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>14,294</td>
<td>6,670</td>
<td>6,922</td>
<td>702</td>
<td>4.91%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>1,504,051</td>
<td>828,137</td>
<td>601,190</td>
<td>74,724</td>
<td>4.97%</td>
</tr>
</tbody>
</table>

#### Education & Training

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expense - Other</td>
<td>65,000</td>
<td>17,453</td>
<td>47,547</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>5,000</td>
<td>-</td>
<td>5,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Professional Dues &amp; Subsc</td>
<td>5,500</td>
<td>8,625</td>
<td>-</td>
<td>(3,125)</td>
<td>(56.82%)</td>
</tr>
<tr>
<td>Training Exp - Investment Research</td>
<td>47,000</td>
<td>20,000</td>
<td>27,000</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Tuition Reimbursement</td>
<td>4,000</td>
<td>-</td>
<td>4,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Other</td>
<td>2,000</td>
<td>1,132</td>
<td>868</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>128,500</td>
<td>47,210</td>
<td>84,415</td>
<td>(3,125)</td>
<td>(2.43%)</td>
</tr>
</tbody>
</table>

#### Professional Services

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof Serv Inv-Hedgefund Service</td>
<td>640,000</td>
<td>272,000</td>
<td>368,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Inv-Bank Fees</td>
<td>355,000</td>
<td>124,148</td>
<td>230,852</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Inv-Portfolio Management</td>
<td>310,000</td>
<td>160,000</td>
<td>150,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Inv-Equity Advisors</td>
<td>100,000</td>
<td>66,667</td>
<td>33,333</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv - Valuations-Legacy Real Estate</td>
<td>280,000</td>
<td>27,625</td>
<td>252,375</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>1,685,000</td>
<td>650,440</td>
<td>1,034,560</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

#### Furniture & Equipment

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software - Investment CRM</td>
<td>23,825</td>
<td>-</td>
<td>23,825</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Risk Management</td>
<td>15,000</td>
<td>120</td>
<td>14,880</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Research</td>
<td>26,000</td>
<td>21,702</td>
<td>4,298</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Monitoring &amp; Reporting</td>
<td>50,000</td>
<td>-</td>
<td>50,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment Totals</strong></td>
<td>114,825</td>
<td>21,822</td>
<td>93,003</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

#### INV Department Excl Due Diligence

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Direct Due Diligence</strong></td>
<td>3,432,376</td>
<td>1,547,609</td>
<td>1,813,168</td>
<td>71,599</td>
<td>2.09%</td>
</tr>
</tbody>
</table>

#### Direct Due Diligence

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof Serv Inv-Employment Solutions</td>
<td>-</td>
<td>144,984</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Legal Services</td>
<td>-</td>
<td>352,702</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Legal Services - Other</td>
<td>-</td>
<td>86,251</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Direct Due Diligence</strong></td>
<td>-</td>
<td>583,937</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
- 2016 Budget contains the budget approved by the Board of Trustees.
- 2016 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
## IT NETWORK SERVICES DEPARTMENT BUDGET

### Personnel Services

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>277,663</td>
<td>170,870</td>
<td>106,793</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>11,434</td>
<td>5,644</td>
<td>5,790</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>37,469</td>
<td>22,812</td>
<td>14,657</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>54,200</td>
<td>33,386</td>
<td>20,814</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>3,471</td>
<td>1,811</td>
<td>1,660</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Total Personnel Services**

| Description                        | 384,237     | 234,523       | 149,714            | -            | 0.00%                 |

### Education & Training

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expense - Other</td>
<td>6,500</td>
<td>-</td>
<td>6,500</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Tuition Reimbursement</td>
<td>5,250</td>
<td>2,232</td>
<td>3,018</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Other</td>
<td>12,000</td>
<td>13,491</td>
<td>-</td>
<td>(1,491)</td>
<td>(12.43%)</td>
</tr>
</tbody>
</table>

**Total Education & Training**

| Description                        | 23,750      | 15,723        | 9,518              | (1,491)      | (6.28%)               |

### Professional Services

<table>
<thead>
<tr>
<th>Description</th>
<th>FYTD Budget</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Services - Other</td>
<td>12,500</td>
<td>-</td>
<td>12,500</td>
<td>-</td>
</tr>
</tbody>
</table>

**Total Professional Services**

| Description                        | 12,500      | -                  | 12,500       | -                     | 0.00%                 |

### Communications

<table>
<thead>
<tr>
<th>Description</th>
<th>FYTD Budget</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications-Telephone</td>
<td>22,680</td>
<td>11,141</td>
<td>11,539</td>
<td>-</td>
</tr>
<tr>
<td>Communcations-Internet</td>
<td>30,480</td>
<td>14,187</td>
<td>16,293</td>
<td>-</td>
</tr>
</tbody>
</table>

**Total Communications**

| Description                        | 53,160      | 25,328             | 27,832       | -                     | 0.00%                 |

### Furniture & Equipment

<table>
<thead>
<tr>
<th>Description</th>
<th>FYTD Budget</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Server - Other</td>
<td>12,000</td>
<td>2,134</td>
<td>9,866</td>
<td>-</td>
</tr>
<tr>
<td>Server - Replacement</td>
<td>28,000</td>
<td>625</td>
<td>27,375</td>
<td>-</td>
</tr>
<tr>
<td>Server - Battery Backup</td>
<td>5,000</td>
<td>1,689</td>
<td>3,311</td>
<td>-</td>
</tr>
</tbody>
</table>

**Workstations**

<table>
<thead>
<tr>
<th>Description</th>
<th>FYTD Budget</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workstations - Replacement</td>
<td>8,000</td>
<td>-</td>
<td>8,000</td>
<td>-</td>
</tr>
</tbody>
</table>

### Printers

<table>
<thead>
<tr>
<th>Description</th>
<th>FYTD Budget</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printers - Maintenance</td>
<td>2,000</td>
<td>-</td>
<td>2,000</td>
<td>-</td>
</tr>
</tbody>
</table>

### Infrastructure

<table>
<thead>
<tr>
<th>Description</th>
<th>FYTD Budget</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure - Offsite Storage</td>
<td>5,100</td>
<td>3,126</td>
<td>1,974</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - DR Service</td>
<td>9,000</td>
<td>5,960</td>
<td>3,040</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Data Center</td>
<td>21,000</td>
<td>11,209</td>
<td>9,791</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Spam Filter</td>
<td>1,000</td>
<td>902</td>
<td>98</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Remote Access</td>
<td>4,300</td>
<td>3,393</td>
<td>907</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - SSL Certificates</td>
<td>250</td>
<td>468</td>
<td>-</td>
<td>(218)</td>
</tr>
<tr>
<td>Infrastructure - Monitoring</td>
<td>3,250</td>
<td>4,156</td>
<td>-</td>
<td>(906)</td>
</tr>
<tr>
<td>Infrastructure - Webfilter</td>
<td>5,100</td>
<td>4,605</td>
<td>495</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Virtual Server</td>
<td>14,000</td>
<td>12,409</td>
<td>1,591</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Network Support</td>
<td>3,500</td>
<td>-</td>
<td>3,500</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Room Monitor</td>
<td>100</td>
<td>-</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Sersers</td>
<td>8,500</td>
<td>-</td>
<td>8,500</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Storage</td>
<td>18,000</td>
<td>10,855</td>
<td>7,145</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure - Switching</td>
<td>8,400</td>
<td>9,773</td>
<td>-</td>
<td>(1,373)</td>
</tr>
</tbody>
</table>
## All Departments Budget to Actual

### Public Safety Personnel Retirement System

### Fiscal Year Projections

**02/16/16**

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software - Other</td>
<td>30,000</td>
<td>21,235</td>
<td>8,765</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>License &amp; Maintenance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>License &amp; Maintenance - Other</td>
<td>1,500</td>
<td>543</td>
<td>957</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>License &amp; Maintenance - Imaging Licensing</td>
<td>21,000</td>
<td>21,400</td>
<td>-</td>
<td>(400)</td>
<td>(1.90%)</td>
</tr>
<tr>
<td><strong>Contingency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Furniture &amp; Equipment</td>
<td>209,000</td>
<td>114,482</td>
<td>97,415</td>
<td>(2,897)</td>
<td>(1.39%)</td>
</tr>
<tr>
<td><strong>Total ITN Department Budget</strong></td>
<td>682,647</td>
<td>390,056</td>
<td>296,979</td>
<td>(4,388)</td>
<td>(0.64%)</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
- 2016 Budget contains the budget approved by the Board of Trustees.
- 2016 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
## IT SYSTEMS DEVELOPMENT DEPARTMENT BUDGET

### Personnel Services

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>421,281</td>
<td>230,126</td>
<td>158,675</td>
<td>32,480</td>
<td>7.71%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>9,523</td>
<td>4,352</td>
<td>3,222</td>
<td>1,949</td>
<td>20.47%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>81,870</td>
<td>41,801</td>
<td>30,561</td>
<td>9,508</td>
<td>11.61%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>82,234</td>
<td>44,486</td>
<td>31,408</td>
<td>6,340</td>
<td>7.71%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>5,266</td>
<td>2,439</td>
<td>2,421</td>
<td>406</td>
<td>7.71%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>600,174</td>
<td>323,204</td>
<td>226,287</td>
<td>50,683</td>
<td>8.44%</td>
</tr>
</tbody>
</table>

### Education & Training

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training Exp - Professional Dues &amp; Subsc</td>
<td>150</td>
<td>-</td>
<td>150</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Tuition Reimbursement</td>
<td>5,000</td>
<td>-</td>
<td>5,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>5,150</td>
<td>-</td>
<td>5,150</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

### Contractual Services

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Services</td>
<td>5,000</td>
<td>9,813</td>
<td>-</td>
<td>(4,813)</td>
<td>(96.26%)</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>5,000</td>
<td>9,813</td>
<td>-</td>
<td>(4,813)</td>
<td>(96.26%)</td>
</tr>
</tbody>
</table>

### Furniture & Equipment

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>6,825</td>
<td>-</td>
<td>6,825</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Enterprise Software</td>
<td>6,000</td>
<td>5,940</td>
<td>60</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Go-To-Webinar</td>
<td>950</td>
<td>-</td>
<td>950</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Go-To-Meeting</td>
<td>550</td>
<td>400</td>
<td>150</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Security</td>
<td>6,825</td>
<td>-</td>
<td>6,825</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>License &amp; Maintenance - Other</td>
<td>450</td>
<td>-</td>
<td>450</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>License &amp; Mtn - Backup Line</td>
<td>1,000</td>
<td>-</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Other</td>
<td>2,000</td>
<td>408</td>
<td>1,592</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>F&amp;E - Repairs &amp; Maintenance</td>
<td>4,500</td>
<td>2,011</td>
<td>2,489</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Contingency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Furniture &amp; Equipment</strong></td>
<td>29,100</td>
<td>8,759</td>
<td>20,341</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total ITS Department Budget</strong></td>
<td>639,424</td>
<td>341,776</td>
<td>251,778</td>
<td>45,870</td>
<td>7.17%</td>
</tr>
</tbody>
</table>

### Column Descriptions:
- 2012 Budget contains the budget approved by the Board of Trustees.
- 2012 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2012 Expenses plus Projected Expenses to the 2012 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2012 Budget.
### MEMBER SERVICES DIVISION BUDGET

#### Personnel Services

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,105,506</td>
<td>681,253</td>
<td>419,393</td>
<td>4,860</td>
<td>0.44%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>56,273</td>
<td>30,456</td>
<td>25,525</td>
<td>292</td>
<td>0.52%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>188,291</td>
<td>120,729</td>
<td>66,791</td>
<td>771</td>
<td>0.41%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>215,795</td>
<td>130,603</td>
<td>84,243</td>
<td>949</td>
<td>0.44%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>13,819</td>
<td>7,218</td>
<td>6,540</td>
<td>61</td>
<td>0.44%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td><strong>1,579,684</strong></td>
<td><strong>970,259</strong></td>
<td><strong>602,492</strong></td>
<td><strong>6,933</strong></td>
<td><strong>0.44%</strong></td>
</tr>
</tbody>
</table>

#### Education & Training

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expense - Other</td>
<td>1,020</td>
<td>763</td>
<td>257</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>400</td>
<td>-</td>
<td>400</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Tuition Reimbursement</td>
<td>800</td>
<td>3,966</td>
<td>-</td>
<td>(3,166)</td>
<td>(395.75%)</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td><strong>2,220</strong></td>
<td><strong>4,729</strong></td>
<td><strong>657</strong></td>
<td><strong>(3,166)</strong></td>
<td><strong>(142.61%)</strong></td>
</tr>
</tbody>
</table>

#### Professional Services

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
</table>

#### Communications

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
</table>

#### Contractual Services

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Services</td>
<td>8,500</td>
<td>8,124</td>
<td>376</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td><strong>8,500</strong></td>
<td><strong>8,124</strong></td>
<td><strong>376</strong></td>
<td><strong>-</strong></td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

#### Furniture & Equipment

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
</table>

**Total MSD Department Budget**

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
</table>

#### Column Descriptions:
- 2016 Budget contains the budget approved by the Board of Trustees.
- 2016 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
## All Departments Budget Summary

<table>
<thead>
<tr>
<th>Department</th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td>6,406,247</td>
<td>3,848,759</td>
<td>3,495,058</td>
<td>353,701</td>
<td>9.19%</td>
</tr>
<tr>
<td>Education &amp; Training</td>
<td>209,455</td>
<td>82,944</td>
<td>88,726</td>
<td>(5,782)</td>
<td>(6.97%)</td>
</tr>
<tr>
<td>Professional Services</td>
<td>2,882,385</td>
<td>1,325,133</td>
<td>1,326,599</td>
<td>(1,466)</td>
<td>(0.11%)</td>
</tr>
<tr>
<td>Board of Trustees</td>
<td>465,750</td>
<td>225,598</td>
<td>225,598</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Communications</td>
<td>81,710</td>
<td>39,523</td>
<td>40,948</td>
<td>(1,425)</td>
<td>(3.61%)</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>19,500</td>
<td>16,551</td>
<td>21,364</td>
<td>(4,813)</td>
<td>(29.08%)</td>
</tr>
<tr>
<td>Building</td>
<td>167,290</td>
<td>117,656</td>
<td>118,162</td>
<td>(506)</td>
<td>(0.43%)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>49,000</td>
<td>30,457</td>
<td>30,457</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>354,500</td>
<td>144,206</td>
<td>146,146</td>
<td>(1,940)</td>
<td>(1.35%)</td>
</tr>
<tr>
<td>Capital</td>
<td>47,750</td>
<td>3,066</td>
<td>3,066</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>All Departments Budget Total</strong></td>
<td><strong>10,683,587</strong></td>
<td><strong>5,833,893</strong></td>
<td><strong>5,496,124</strong></td>
<td><strong>337,769</strong></td>
<td><strong>5.79%</strong></td>
</tr>
<tr>
<td>Litigation</td>
<td>250,000</td>
<td>116,624</td>
<td>116,624</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total With Litigation</strong></td>
<td><strong>10,933,587</strong></td>
<td><strong>5,950,517</strong></td>
<td><strong>5,612,748</strong></td>
<td><strong>337,769</strong></td>
<td><strong>5.68%</strong></td>
</tr>
<tr>
<td>Excluded Investment Due Diligen</td>
<td>-</td>
<td>-</td>
<td>583,937</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

### Column Descriptions:
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# All Departments Budget to Actual

Public Safety Personnel Retirement System  
**Year to Date**  
**02/16/16**

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,152,297</td>
<td>499,323</td>
<td>158,321</td>
<td>24.07%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>61,969</td>
<td>20,172</td>
<td>9,499</td>
<td>32.01%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>132,759</td>
<td>53,117</td>
<td>24,916</td>
<td>31.93%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>183,342</td>
<td>88,707</td>
<td>26,649</td>
<td>23.10%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>12,910</td>
<td>5,303</td>
<td>1,979</td>
<td>27.18%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>1,543,277</td>
<td>666,622</td>
<td>221,364</td>
<td>24.93%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense - Other</td>
<td>4,900</td>
<td>3,486</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>12,850</td>
<td>1,112</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Professional Dues</td>
<td>17,485</td>
<td>11,908</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>35,235</td>
<td>16,506</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services-Actuarial</td>
<td>225,000</td>
<td>177,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Services-Due Diligence Otthe</td>
<td>1,000</td>
<td>1,089</td>
<td>(89)</td>
<td>(8.90%)</td>
</tr>
<tr>
<td>Prof Serv Admin-Legislative Liais</td>
<td>213,600</td>
<td>134,600</td>
<td>134,600</td>
<td>-</td>
</tr>
<tr>
<td>Prof Serv Admin-Actuarial Studie</td>
<td>150,000</td>
<td>20,000</td>
<td>20,000</td>
<td>-</td>
</tr>
<tr>
<td>Legal Services- Legal Counsel</td>
<td>50,000</td>
<td>13,838</td>
<td>(1,338)</td>
<td>(10.70%)</td>
</tr>
<tr>
<td>Legal Services - AG</td>
<td>165,000</td>
<td>78,450</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Legal Services-Other</td>
<td>75,000</td>
<td>37,817</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Professional Services - Other</td>
<td>115,000</td>
<td>89,201</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>994,600</td>
<td>551,995</td>
<td>(1,427)</td>
<td>(0.26%)</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Services</td>
<td>6,000</td>
<td>3,427</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>6,000</td>
<td>3,427</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADM Department Budget</td>
<td>2,579,112</td>
<td>1,238,550</td>
<td>219,937</td>
<td>15.08%</td>
</tr>
<tr>
<td><strong>Litigation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Services - Litigation</td>
<td>250,000</td>
<td>116,624</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Litigation</strong></td>
<td>250,000</td>
<td>116,624</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total ADM Department Budget</strong></td>
<td>2,829,112</td>
<td>1,355,174</td>
<td>219,937</td>
<td>13.96%</td>
</tr>
</tbody>
</table>

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- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
### AGENCY DEPARTMENT BUDGET

#### Professional Services

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services - Other</td>
<td>500 232</td>
<td>232</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Agency-On Site Shredd</td>
<td>850 299</td>
<td>299</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Agency-Records Mana</td>
<td>7,000 6,374</td>
<td>6,374</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total Professional Services</td>
<td>8,350</td>
<td>6,905</td>
<td>6,905</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Communications

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printing-External - Other</td>
<td>50 50</td>
<td>103</td>
<td>(53)</td>
<td>(106.00%)</td>
</tr>
<tr>
<td>Delivery Service</td>
<td>3,000</td>
<td>732</td>
<td>732</td>
<td>-</td>
</tr>
<tr>
<td>Postage Meter</td>
<td>9,000 9,000</td>
<td>10,372</td>
<td>(1,372)</td>
<td>(15.24%)</td>
</tr>
<tr>
<td>Total Communications</td>
<td>12,050</td>
<td>9,782</td>
<td>11,207</td>
<td>(1,425)</td>
</tr>
</tbody>
</table>

#### Contractual Services

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copier/Printer Supplies</td>
<td>18,000</td>
<td>9,945</td>
<td>9,945</td>
<td>-</td>
</tr>
<tr>
<td>Envelopes</td>
<td>500</td>
<td>193</td>
<td>193</td>
<td>-</td>
</tr>
<tr>
<td>Forms</td>
<td>1,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Office Supplies - General</td>
<td>26,000</td>
<td>18,484</td>
<td>18,484</td>
<td>-</td>
</tr>
<tr>
<td>Other Office Expense</td>
<td>3,000</td>
<td>1,835</td>
<td>1,835</td>
<td>-</td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>49,000</td>
<td>30,457</td>
<td>30,457</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Total AGN Department Budget

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total AGN Department Budget</td>
<td>69,400</td>
<td>47,144</td>
<td>48,569</td>
<td>(1,425)</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
- 2016 Budget contains the budget approved by the Board of Trustees.
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- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
All Departments Budget to Actual
Public Safety Personnel Retirement System
Year to Date
02/16/16

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BOARD OF TRUSTEES BUDGET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Trustee Board Meeting</td>
<td>11,000</td>
<td>5,906</td>
<td>5,906</td>
<td>0.00%</td>
</tr>
<tr>
<td>Board of Trustees Education &amp; Tr</td>
<td>5,500</td>
<td>4,670</td>
<td>4,670</td>
<td>0.00%</td>
</tr>
<tr>
<td>Board of Trustees Expenses - Ot</td>
<td>9,250</td>
<td>22</td>
<td>22</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Admin-Board Consultant</td>
<td>440,000</td>
<td>215,000</td>
<td>215,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total Board of Trustee</td>
<td>465,750</td>
<td>225,598</td>
<td>225,598</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total BOT Department Budget</td>
<td>465,750</td>
<td>225,598</td>
<td>225,598</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

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## All Departments Budget to Actual

**Public Safety Personnel Retirement System**

**Year to Date**

**02/16/16**

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUILDING DEPARTMENT BUDGET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Building Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>Utilities 55,000</td>
<td>39,222</td>
<td>32,847</td>
<td>6,375</td>
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<td><strong>Janitorial</strong></td>
<td>Janitorial Services 22,800</td>
<td>14,360</td>
<td>14,360</td>
<td>-</td>
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<tr>
<td><strong>Window Cleaning</strong></td>
<td>Window Cleaning 1,560</td>
<td>665</td>
<td>665</td>
<td>-</td>
</tr>
<tr>
<td><strong>Elevator</strong></td>
<td>Elevator 4,800</td>
<td>1,062</td>
<td>1,062</td>
<td>-</td>
</tr>
<tr>
<td><strong>Security System</strong></td>
<td>Security System 360</td>
<td>360</td>
<td>422</td>
<td>(62)</td>
</tr>
<tr>
<td><strong>Repair &amp; Maintenance</strong></td>
<td>Repairs and Maintenance - Other 12,000</td>
<td>8,268</td>
<td>8,268</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Rep &amp; Maint - Air Conditioning 20,000</td>
<td>20,000</td>
<td>26,819</td>
<td>(6,819)</td>
</tr>
<tr>
<td><strong>Property &amp; Sales Taxes</strong></td>
<td>Property &amp; Sales Taxes - County 763</td>
<td>382</td>
<td>382</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Property &amp; Sales Taxes - City 3,207</td>
<td>1,870</td>
<td>1,870</td>
<td>-</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>Insurance 10,600</td>
<td>9,600</td>
<td>9,600</td>
<td>-</td>
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<tr>
<td><strong>Condo Association</strong></td>
<td>Condo Association Fees 32,340</td>
<td>20,387</td>
<td>20,387</td>
<td>-</td>
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<tr>
<td><strong>Other Occupancy Expenses</strong></td>
<td>Cleaning Supplies 420</td>
<td>273</td>
<td>273</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Lock Maintenance 2,000</td>
<td>451</td>
<td>451</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Pest Control 1,440</td>
<td>756</td>
<td>756</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Building Expenses</strong></td>
<td>167,290</td>
<td>117,656</td>
<td>118,162</td>
<td>(506)</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>Bldg - Improve-Faucet Replace 3,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Building Improvements 13,000</td>
<td>100</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Bldg Improve - Alarm &amp; Video 5,250</td>
<td>34</td>
<td>34</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Bldg Improve - Wiring 5,000</td>
<td>1,732</td>
<td>1,732</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Bldg Improve - Energy Mgmt Sys 15,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Rep &amp; Maint - Safety Equipment 1,500</td>
<td>54</td>
<td>54</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Bldg Improve - Furniture &amp; Equip 5,000</td>
<td>1,146</td>
<td>1,146</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td>47,750</td>
<td>3,066</td>
<td>3,066</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total BLD Department Budget</strong></td>
<td>215,040</td>
<td>120,722</td>
<td>121,228</td>
<td>(506)</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
- 2012 Budget contains the budget approved by the Board of Trustees.
- 2012 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
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## All Departments Budget to Actual
### Public Safety Personnel Retirement System
#### Year to Date
##### 02/16/16

### COMPLIANCE DEPARTMENT BUDGET

<table>
<thead>
<tr>
<th>Personnel Services</th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>167,536</td>
<td>105,711</td>
<td>105,711</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>10,052</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>23,731</td>
<td>12,556</td>
<td>12,556</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>32,703</td>
<td>20,397</td>
<td>20,397</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA</td>
<td>2,094</td>
<td>1,121</td>
<td>1,121</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td><strong>236,116</strong></td>
<td><strong>139,785</strong></td>
<td><strong>139,785</strong></td>
<td>-</td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education &amp; Training</th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expense - Other</td>
<td>5,000</td>
<td>1,116</td>
<td>1,116</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>3,500</td>
<td>599</td>
<td>599</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Professional Dues</td>
<td>2,500</td>
<td>1,409</td>
<td>1,409</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - HIPAA- Complian</td>
<td>2,000</td>
<td>2,000</td>
<td>-</td>
<td>2,000</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td><strong>13,000</strong></td>
<td><strong>5,124</strong></td>
<td><strong>3,124</strong></td>
<td><strong>2,000</strong></td>
<td><strong>39.03%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Professional Services</th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof Serv - IT Audit</td>
<td>25,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td><strong>25,000</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Communications</th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
</table>

| Contractual Services | 2016 Budget | FYTD Budget | FYTD Expenses | (Over) Under | (Over) Under Budget % |}

<table>
<thead>
<tr>
<th>Furniture &amp; Equipment</th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>1,575</td>
<td>1,083</td>
<td>1,083</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Furniture &amp; Equipment</strong></td>
<td><strong>1,575</strong></td>
<td><strong>1,083</strong></td>
<td><strong>1,083</strong></td>
<td><strong>-</strong></td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

**Total COM Department Budget** | **275,691** | **145,992** | **143,992**   | **2,000**    | **1.37%**             |

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## All Departments Budget to Actual
### Public Safety Personnel Retirement System
#### Year to Date
##### 02/16/16

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>398,648</td>
<td>235,338</td>
<td>235,338</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>18,462</td>
<td>10,409</td>
<td>10,409</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>64,881</td>
<td>40,746</td>
<td>40,746</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>71,734</td>
<td>43,540</td>
<td>43,540</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>4,983</td>
<td>2,495</td>
<td>2,495</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>558,708</td>
<td>332,528</td>
<td>332,528</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>500</td>
<td>378</td>
<td>378</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Professional Dues</td>
<td>1,100</td>
<td>1,056</td>
<td>1,056</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>1,600</td>
<td>1,434</td>
<td>1,434</td>
<td>-</td>
<td>0.00%</td>
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<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services-Auditing</td>
<td>148,935</td>
<td>111,599</td>
<td>111,599</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Finance-Annual Report</td>
<td>3,000</td>
<td>1,095</td>
<td>1,095</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Finance-Banking</td>
<td>-</td>
<td>-</td>
<td>39</td>
<td>(39)</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Finance-Accounting So</td>
<td>5,000</td>
<td>4,526</td>
<td>4,526</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>156,935</td>
<td>117,220</td>
<td>117,259</td>
<td>(39)</td>
<td>(0.03%)</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postage - Wells Fargo</td>
<td>16,500</td>
<td>4,413</td>
<td>4,413</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Communications</strong></td>
<td>16,500</td>
<td>4,413</td>
<td>4,413</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total FIN Department Budget</strong></td>
<td>733,743</td>
<td>455,595</td>
<td>455,634</td>
<td>(39)</td>
<td>(0.01%)</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,143,531</td>
<td>685,355</td>
<td>629,207</td>
<td>56,148</td>
<td>8.19%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>65,372</td>
<td>44,139</td>
<td>40,770</td>
<td>3,369</td>
<td>7.63%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>91,867</td>
<td>52,914</td>
<td>48,980</td>
<td>3,934</td>
<td>7.43%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>188,987</td>
<td>113,079</td>
<td>102,510</td>
<td>10,569</td>
<td>9.35%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>14,294</td>
<td>7,372</td>
<td>6,670</td>
<td>702</td>
<td>9.52%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>1,504,051</td>
<td>902,859</td>
<td>828,137</td>
<td>74,722</td>
<td>8.28%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense - Other</td>
<td>65,000</td>
<td>17,453</td>
<td>17,453</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>5,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Professional Dues</td>
<td>5,500</td>
<td>5,500</td>
<td>8,625</td>
<td>(3,125)</td>
<td>(56.82%)</td>
</tr>
<tr>
<td>Training Exp - Investment Resea</td>
<td>47,000</td>
<td>20,000</td>
<td>20,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Tuition Reimbur</td>
<td>4,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Other</td>
<td>2,000</td>
<td>1,132</td>
<td>1,132</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>128,500</td>
<td>44,085</td>
<td>47,210</td>
<td>(3,125)</td>
<td>(7.09%)</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prof Serv Inv-Hedgefund Service</td>
<td>640,000</td>
<td>272,000</td>
<td>272,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Inv-Bank Fees</td>
<td>355,000</td>
<td>124,148</td>
<td>124,148</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Inv-Portfolio Managem</td>
<td>310,000</td>
<td>160,000</td>
<td>160,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv Inv-Equity Advisors</td>
<td>100,000</td>
<td>66,667</td>
<td>66,667</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv - Valuations-Legacy Re</td>
<td>280,000</td>
<td>27,625</td>
<td>27,625</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>1,685,000</td>
<td>650,440</td>
<td>650,440</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software - Investment CRM</td>
<td>23,825</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Risk Management</td>
<td>15,000</td>
<td>120</td>
<td>120</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Research</td>
<td>26,000</td>
<td>21,702</td>
<td>21,702</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software - Monitoring &amp; Reporting</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment Totals</strong></td>
<td>114,825</td>
<td>21,822</td>
<td>21,822</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>INV Department Excl Due Dilige</strong></td>
<td>3,432,376</td>
<td>1,619,206</td>
<td>1,547,609</td>
<td>71,597</td>
<td>4.42%</td>
</tr>
<tr>
<td><strong>Direct Due Diligence</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prof Serv Inv-Employment Soluti</td>
<td>-</td>
<td>-</td>
<td>144,984</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Legal Services</td>
<td>-</td>
<td>-</td>
<td>352,702</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Legal Services - Other</td>
<td>-</td>
<td>-</td>
<td>86,251</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Direct Due Diligence</strong></td>
<td>-</td>
<td>-</td>
<td>583,937</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
- 2016 Budget contains the budget approved by the Board of Trustees.
- 2016 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
### IT NETWORK SERVICES DEPARTMENT BUDGET

#### Personnel Services

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>277,663</td>
<td>170,870</td>
<td>170,870</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>11,434</td>
<td>5,644</td>
<td>5,644</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>37,469</td>
<td>22,812</td>
<td>22,812</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>54,200</td>
<td>33,386</td>
<td>33,386</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>3,471</td>
<td>1,811</td>
<td>1,811</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td><strong>384,237</strong></td>
<td><strong>234,523</strong></td>
<td><strong>234,523</strong></td>
<td>-</td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

#### Education & Training

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expense - Other</td>
<td>6,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Exp - Tuition Reimburs</td>
<td>5,250</td>
<td>2,232</td>
<td>2,232</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense - Other</td>
<td>12,000</td>
<td>12,000</td>
<td>13,491</td>
<td>1,491</td>
<td>(12.43%)</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td><strong>23,750</strong></td>
<td><strong>14,232</strong></td>
<td><strong>15,723</strong></td>
<td><strong>(1,491)</strong></td>
<td><strong>(10.48%)</strong></td>
</tr>
</tbody>
</table>

#### Professional Services

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Services - Other</td>
<td>12,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td><strong>12,500</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

#### Communications

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications-Telephone</td>
<td>22,680</td>
<td>11,141</td>
<td>11,141</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Communications-Internet</td>
<td>30,480</td>
<td>14,187</td>
<td>14,187</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Communications</strong></td>
<td><strong>53,160</strong></td>
<td><strong>25,328</strong></td>
<td><strong>25,328</strong></td>
<td><strong>-</strong></td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>

#### Contractual Services

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Server - Other</td>
<td>12,000</td>
<td>2,134</td>
<td>2,134</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Server - Replacement</td>
<td>28,000</td>
<td>625</td>
<td>625</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Server - Battery Backup</td>
<td>5,000</td>
<td>1,689</td>
<td>1,689</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

#### Furniture & Equipment

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workstations - Replacement</td>
<td>8,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

#### Printers

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printers - Maintenance</td>
<td>2,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

#### Infrastructure

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Expenses</th>
<th>FYTD Budget</th>
<th>Under/Over</th>
<th>Budget Under/Over %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure - Offsite Storage</td>
<td>5,100</td>
<td>3,126</td>
<td>3,126</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - DR Service</td>
<td>9,000</td>
<td>5,960</td>
<td>5,960</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Data Center</td>
<td>21,000</td>
<td>11,209</td>
<td>11,209</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Spam Filter</td>
<td>1,000</td>
<td>902</td>
<td>902</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Remote Access</td>
<td>4,300</td>
<td>3,393</td>
<td>3,393</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - SSL Certificates</td>
<td>250</td>
<td>250</td>
<td>468</td>
<td>(218)</td>
<td>(87.20%)</td>
</tr>
<tr>
<td>Infrastructure - Monitoring</td>
<td>3,250</td>
<td>3,250</td>
<td>4,156</td>
<td>(906)</td>
<td>(27.88%)</td>
</tr>
<tr>
<td>Infrastructure - Webfilter</td>
<td>5,100</td>
<td>4,605</td>
<td>4,605</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Virtual Server</td>
<td>14,000</td>
<td>12,409</td>
<td>12,409</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Network Support</td>
<td>3,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Room Monitor</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Servers</td>
<td>8,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Storage</td>
<td>18,000</td>
<td>10,855</td>
<td>10,855</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Infrastructure - Switching</td>
<td>8,400</td>
<td>9,773</td>
<td>9,773</td>
<td>(1,373)</td>
<td>(16.35%)</td>
</tr>
</tbody>
</table>
## All Departments Budget to Actual
### Public Safety Personnel Retirement System
#### Year to Date
##### 02/16/16

<table>
<thead>
<tr>
<th></th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software - Other</td>
<td>30,000</td>
<td>21,235</td>
<td>21,235</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>License &amp; Maintenance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>License &amp; Maintenance - Other</td>
<td>1,500</td>
<td>1,500</td>
<td>543</td>
<td>957</td>
<td>63.80%</td>
</tr>
<tr>
<td>License &amp; Maintenance - Imaging</td>
<td>21,000</td>
<td>21,000</td>
<td>21,400</td>
<td>(400)</td>
<td>(1.90%)</td>
</tr>
<tr>
<td><strong>Contingency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Furniture &amp; Equipment</td>
<td>209,000</td>
<td>112,542</td>
<td>114,482</td>
<td>(1,940)</td>
<td>(1.72%)</td>
</tr>
<tr>
<td><strong>Total ITN Department Budget</strong></td>
<td>682,647</td>
<td>386,625</td>
<td>390,056</td>
<td>(3,431)</td>
<td>(0.89%)</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
- 2016 Budget contains the budget approved by the Board of Trustees.
- 2016 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
## All Departments Budget to Actual
### Public Safety Personnel Retirement System
#### Year to Date
##### 02/16/16

### IT SYSTEMS DEVELOPMENT DEPARTMENT BUDGET

<table>
<thead>
<tr>
<th>Personnel Services</th>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>421,281</td>
<td>262,606</td>
<td>230,126</td>
<td>32,480</td>
<td>12.37%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>9,523</td>
<td>6,301</td>
<td>4,352</td>
<td>1,949</td>
<td>30.93%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>81,870</td>
<td>51,308</td>
<td>41,801</td>
<td>9,507</td>
<td>18.53%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>82,234</td>
<td>50,826</td>
<td>44,486</td>
<td>6,340</td>
<td>12.47%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>5,266</td>
<td>2,845</td>
<td>2,439</td>
<td>406</td>
<td>14.27%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td><strong>600,174</strong></td>
<td><strong>373,886</strong></td>
<td><strong>323,204</strong></td>
<td><strong>50,682</strong></td>
<td><strong>13.56%</strong></td>
</tr>
</tbody>
</table>

### Education & Training

| Training Exp - Professional Dues | -           | -           | -            | -            | 0.00%                |
| Training Exp - Tuition Reimbs   | 5,000       | -           | -            | -            | 0.00%                |
| **Total Education & Training**  | **5,150**   | -           | -            | -            | **0.00%**            |

### Contractual Services

| Contract Services | 5,000 | 5,000 | 9,813 | (4,813) | (96.26%) |
| **Total Contractual Services** | **5,000** | **5,000** | **9,813** | **(4,813)** | **(96.26%)** |

### Furniture & Equipment

| Software - SQL Server | 6,825 | - | - | - | 0.00% |
| Software - Enterprise Software | 6,000 | 5,940 | 5,940 | - | 0.00% |
| Software - Go-To-Webinar | 950 | - | - | - | 0.00% |
| Software - Go-To-Meeting | 550 | 400 | 400 | - | 0.00% |
| Software - Security | 6,825 | - | - | - | 0.00% |
| License & Maintenance - Other | 450 | - | - | - | 0.00% |
| License & Mtn - Backup Line | 1,000 | - | - | - | 0.00% |
| Software - Other | 2,000 | 408 | 408 | - | 0.00% |
| F&E - Repairs & Maintenance | 4,500 | 2,011 | 2,011 | - | 0.00% |
| **Total Furniture & Equipment** | **29,100** | **8,759** | **8,759** | - | **0.00%** |

### Contingency

| **Total ITS Department Budget** | **639,424** | **387,645** | **341,776** | **45,869** | **11.83%** |

---

**Column Descriptions:**

- 2012 Budget contains the budget approved by the Board of Trustees.
- 2012 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2012 Expenses plus Projected Expenses to the 2012 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2012 Budget.
### All Departments Budget to Actual

Public Safety Personnel Retirement System  
**Year to Date**  
**02/16/16**

<table>
<thead>
<tr>
<th>2016 Budget</th>
<th>FYTD Budget</th>
<th>FYTD Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,105,506</td>
<td>686,113</td>
<td>681,253</td>
<td>4,860</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>56,273</td>
<td>30,748</td>
<td>30,456</td>
<td>292</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>188,291</td>
<td>121,500</td>
<td>120,729</td>
<td>771</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>215,795</td>
<td>131,552</td>
<td>130,603</td>
<td>949</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>13,819</td>
<td>7,279</td>
<td>7,218</td>
<td>61</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>1,579,684</td>
<td>977,192</td>
<td>970,259</td>
<td>6,933</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense - Other</td>
<td>1,020</td>
<td>763</td>
<td>763</td>
<td>-</td>
</tr>
<tr>
<td>Training Expense - Conferences</td>
<td>400</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Training Exp - Tuition Reimburs</td>
<td>800</td>
<td>800</td>
<td>3,966</td>
<td>(3,166)</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>2,220</td>
<td>1,563</td>
<td>4,729</td>
<td>(3,166)</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Services</td>
<td>8,500</td>
<td>8,124</td>
<td>8,124</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>8,500</td>
<td>8,124</td>
<td>8,124</td>
<td>-</td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Total MSD Department Budget</strong></td>
<td>1,590,404</td>
<td>986,879</td>
<td>983,112</td>
<td>3,767</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
- 2016 Budget contains the budget approved by the Board of Trustees.
- 2016 Expenses contains paid invoices to date.
- Projected Expenses consist of two components: (1) unpaid invoices that are included in the budget; (2) unpaid invoices for anticipated expenses that have arisen after the budget was approved.
- (Over) Under compares 2016 Expenses plus Projected Expenses to the 2016 Budget.
- (Over) Under Budget % is percentage of (Over) Under to 2016 Budget.
Local Board Training
Recap for February 2016
Robert Ortega, Training Coordinator
Don Mineer, Training Specialist

Local Board Outreach:

- CORP Local board training on February 9, 2016. (12 attended in person and 11 attended via webinar)
- Conducted initial conversations with Montezuma Rimrock and Verde Valley Fire District on potential creation of Joint Power Authority.

Additional Projects:

- Created a presentation to help the employer groups understand the individual actuarial reports. Using the presentation with employer groups that we visit with.
- Created a new tool which is available in the PSPRS Local Board Website. The tool will allow authorized local staff to view a list of the board’s retirement actions processed for payment each month. Helping the local boards implement this new tool.
- Reviewing the local board minutes and contacting local boards who need assistance.
- Working with Local Boards who have new disabilities to process.
## PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

**FY2016 LEGAL INVOICES FOR SERVICES RENDERED IN JANUARY FOR FEBRUARY PAYMENT**

**TOTALS BY VENDOR**

### SUMMARY BY VENDOR and TYPE

<table>
<thead>
<tr>
<th>Vendor</th>
<th>AMOUNT DUE (February 2016)</th>
<th>FYTD 2016 (Fees &amp; Costs)</th>
<th>Deals in Process</th>
<th>Committed Capital</th>
<th>Legal fees as % of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KUTAK ROCK</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>0.00</td>
<td>2,387.70</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Litigation</td>
<td>0.00</td>
<td>46,610.63</td>
<td></td>
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</tr>
<tr>
<td>Investment</td>
<td>45,862.09</td>
<td>382,206.14</td>
<td>3</td>
<td>287,750,000</td>
<td>0.0159%</td>
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<tr>
<td><strong>KUTAK TOTAL</strong></td>
<td>45,862.09</td>
<td>431,204.47</td>
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<tr>
<td><strong>STEPTOE &amp; JOHNSON</strong></td>
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</tr>
<tr>
<td>Administration</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Litigation</td>
<td>0.00</td>
<td>50,128.20</td>
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<tr>
<td><strong>STEPTOE &amp; JOHNSON TOTAL</strong></td>
<td>0.00</td>
<td>50,128.20</td>
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<tr>
<td><strong>FOLEY &amp; LARDNER</strong></td>
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<tr>
<td>Investment</td>
<td>3,005.00</td>
<td>97,832.00</td>
<td>1</td>
<td>30,000,000</td>
<td>0.0100%</td>
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<tr>
<td><strong>FOLEY &amp; LARDNER TOTAL</strong></td>
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<td>97,832.00</td>
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<tr>
<td><strong>FOSTER PEPPER</strong></td>
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<tr>
<td>Investment</td>
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<td>0.00</td>
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<tr>
<td><strong>FOSTER PEPPER TOTAL</strong></td>
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<tr>
<td>Investment</td>
<td>0.00</td>
<td>13,733.00</td>
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<tr>
<td><strong>JACKSON WALKER TOTAL</strong></td>
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<td>13,733.00</td>
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<td><strong>CHARLES W. WHETSTINE</strong></td>
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<tr>
<td>Administration</td>
<td>5,662.50</td>
<td>32,221.50</td>
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<td>32,221.50</td>
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<td><strong>LEWIS ROCA ROTHGERBER</strong></td>
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<tr>
<td>Administration</td>
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<td>0.00</td>
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<tr>
<td><strong>LEWIS ROCA ROTHGERBER TOTAL</strong></td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td><strong>Coppersmith/Brockelman</strong></td>
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<tr>
<td>Litigation</td>
<td>177.00</td>
<td>177.00</td>
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<tr>
<td><strong>Coppersmith/Brockelman TOTAL</strong></td>
<td>177.00</td>
<td>177.00</td>
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<tr>
<td><strong>Special Counsel</strong></td>
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<tr>
<td>Litigation</td>
<td>0.00</td>
<td>19,668.99</td>
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<td><strong>Special Counsel TOTAL</strong></td>
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<td></td>
<td>Administration</td>
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<tr>
<td>Fennemore Craig</td>
<td>5,505.00</td>
<td>1,955.00</td>
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<td><strong>TOTAL</strong></td>
<td>5,505.00</td>
<td>1,955.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Administration</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$11,167.50</td>
<td>$36,564.20</td>
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<tr>
<td><strong>Litigation</strong></td>
<td>177.00</td>
<td>116,584.82</td>
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<td><strong>Investment</strong></td>
<td>48,867.09</td>
<td>493,771.14</td>
<td>4</td>
<td>317,750,000</td>
<td>0.0154%</td>
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<td><strong>GRAND TOTAL</strong></td>
<td>60,211.59</td>
<td>646,920.16</td>
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Internal deals in progress 1
PSPRS Legal Expenses (FYTD 2016)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Jul 2015</td>
<td>(2,578)</td>
<td>4,820</td>
<td>9,237</td>
<td>10,384</td>
<td>0</td>
<td>3,534</td>
<td>11,168</td>
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<td>Jan 2016</td>
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<td>Mar 2016</td>
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<td>Jun 2016</td>
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</table>

Admin (2,578) 4,820 9,237 10,384 0 3,534 11,168
Invest 39,460 58,290 64,147 72,531 69,894 87,470 48,867
Litigate 46,286 26,865 1,494 19,297 26,073 3,218 177
# Compliance and Internal Audit

**January 2016**

Bridget Feeley  
Internal Audit and Compliance Officer  
David Pliskin  
Internal Auditor

## Compliance Projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Investment Compliance Review</td>
<td>1%</td>
</tr>
<tr>
<td>Approval of Capital calls</td>
<td>10%</td>
</tr>
<tr>
<td>Personal Trading</td>
<td>1%</td>
</tr>
</tbody>
</table>

## Internal Audit

<table>
<thead>
<tr>
<th>Project</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of Management Fees</td>
<td>5%</td>
</tr>
<tr>
<td>Review of Cancer Insurance Program</td>
<td>37%</td>
</tr>
<tr>
<td>Issue Tracking-follow up, review and report</td>
<td>1%</td>
</tr>
<tr>
<td>Other Requests-VCP/ADOA-GAO</td>
<td>16%</td>
</tr>
</tbody>
</table>

## Other Projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update Internal Audit/Compliance Procedures</td>
<td>10%</td>
</tr>
<tr>
<td>Develop Internal Audit Manual</td>
<td>5%</td>
</tr>
<tr>
<td>Issue Tracking-follow up, review and report</td>
<td>1%</td>
</tr>
</tbody>
</table>

## Administration

<table>
<thead>
<tr>
<th>Project</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive/Department Meetings</td>
<td>2%</td>
</tr>
<tr>
<td>ADOA mandates - Training - Reports</td>
<td>2%</td>
</tr>
<tr>
<td>Board of Trustees Meetings including prep</td>
<td>4%</td>
</tr>
<tr>
<td>Other-ACL training; other training; admin. Items; prof. assoc. meetings</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Total** 100%
Public Safety Personnel Retirement System

Compliance / Internal Audit Plan
FY 2015 - 2016

February 24, 2016
### Detail of Proposed Internal Audit Projects

Please note: Highlighted boxes have changed from prior update.

<table>
<thead>
<tr>
<th>Process/Review</th>
<th>Objective</th>
<th>Tentative Reporting Date</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit Manual and Internal Audit Procedures</td>
<td>Develop formal Internal Audit Manual and further document Internal Audit Procedures. This was a recommendation per the Auditor General's Sunset Review.</td>
<td>December</td>
<td>Manual 75% completed, Procedures 50% completed</td>
</tr>
<tr>
<td>Train Internal Auditor in the Compliance Functions</td>
<td>Develop back-up for the Internal Audit and Compliance Officer. This concern was expressed in the Risk Assessment as well as in Board of Trustees meeting.</td>
<td>January</td>
<td>Internal Auditor currently reviewing procedural documentation.</td>
</tr>
<tr>
<td>Monthly sample review of accuracy of Management Fees</td>
<td>Will select five investments per month to review legal documents to obtain management fee terms, and agree to actual management fees charged.</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>Control review of Investment Management Fees</td>
<td>Review the processes to assure that fees paid to our investment partners are accurately calculated and within the terms of the agreements.</td>
<td>February</td>
<td></td>
</tr>
<tr>
<td>Review of Due Diligence Process</td>
<td>Review the controls around Manager Selection and Investment Due Diligence process</td>
<td>March</td>
<td>Due diligence procedures currently being update. Expect review in June.</td>
</tr>
</tbody>
</table>
## Detail of Proposed Internal Audit Projects

<table>
<thead>
<tr>
<th>Process/Review</th>
<th>Objective</th>
<th>Tentative Reporting Date</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting for investments</td>
<td>Review the controls around the recording of investments</td>
<td>May</td>
<td></td>
</tr>
<tr>
<td>Maintenance of Member/Retiree Data</td>
<td>Possible Project for continuous auditing. Periodic comparison of changes in data and sample testing of changes noted</td>
<td>This is an ongoing project begun in FY 2014-2015</td>
<td></td>
</tr>
<tr>
<td>ADOA policies</td>
<td>Review of PSPRS Compliance with ADOA policies</td>
<td>February</td>
<td>90% Completed</td>
</tr>
<tr>
<td>Refunds</td>
<td>Review of the controls around the issuance of Refunds</td>
<td>October</td>
<td>Completed</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>Review the process of developing and monitoring the strategic plan.</td>
<td>April</td>
<td></td>
</tr>
</tbody>
</table>
## Detail of Proposed Internal Audit Projects

<table>
<thead>
<tr>
<th>Process/Review</th>
<th>Objective</th>
<th>Tentative Reporting Date</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancer Insurance Program</td>
<td>Review of Controls around the Cancer Insurance Program</td>
<td>April</td>
<td>Moved forward, 90% completed</td>
</tr>
<tr>
<td>External Penetration Review</td>
<td>Outsourced IT Review</td>
<td>TBD</td>
<td>RFP In process</td>
</tr>
<tr>
<td>IT General Controls Review</td>
<td>Outsourced IT Review</td>
<td>TBD</td>
<td>RFP in process</td>
</tr>
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</table>
**2019**

### 2016: Last Action

<table>
<thead>
<tr>
<th>Bill Number</th>
<th>Description</th>
<th>Date</th>
<th>Action</th>
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<tbody>
<tr>
<td>H2019:</td>
<td>CREDITED SERVICE; MILITARY SERVICE PURCHASE</td>
<td>2/16</td>
<td>referred to Senate pub-mil-tech, fin.</td>
</tr>
<tr>
<td>H2074:</td>
<td>PUBLIC SAFETY EMPLOYEES; OMNIBUS</td>
<td>2/4</td>
<td>from House mil-pub with amend #4104.</td>
</tr>
<tr>
<td>H2512:</td>
<td>PENSION CONTRIBUTIONS; EXPENDITURE LIMIT EXEMPTION</td>
<td>2/16</td>
<td>from House rules okay.</td>
</tr>
<tr>
<td>H2583:</td>
<td>OPEN MEETINGS; AUDIOVISUAL RECORDINGS</td>
<td>2/9</td>
<td>referred to House gov-higher ed.</td>
</tr>
<tr>
<td>H2643:</td>
<td>PSPRS; CORP; EORP; ADMINISTRATION CHANGES</td>
<td>2/8</td>
<td>referred to House gov-higher ed.</td>
</tr>
<tr>
<td>S1160:</td>
<td>CORP; REVERSE DEFERRED RETIREMENT OPTION</td>
<td>2/16</td>
<td>from Senate rules okay.</td>
</tr>
<tr>
<td>S1206:</td>
<td>RETIREMENT PLANS; ELECTED OFFICIALS; OPT-OUT</td>
<td>2/17</td>
<td>Senate fin amended; report awaited.</td>
</tr>
<tr>
<td>S1428:</td>
<td>PSPRS MODIFICATIONS</td>
<td>2/16</td>
<td>signed by governor. Chap. no. awaited.</td>
</tr>
<tr>
<td>S1429:</td>
<td>PUBLIC RETIREMENT SYSTEMS; SPECIAL ELECTION</td>
<td>2/16</td>
<td>signed by governor. Chap. no. awaited.</td>
</tr>
<tr>
<td>SCR1019:</td>
<td>PUBLIC RETIREMENT SYSTEM BENEFITS</td>
<td>2/15</td>
<td>Senate concurred on House amendments and passed on final reading 28-0; to secretary of state.</td>
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</tbody>
</table>

### Bill Summaries

**H2019: CREDITED SERVICE; MILITARY SERVICE PURCHASE**

Members of the Elected Officials Retirement Plan, Public Safety Personnel Retirement System and Corrections Officer Retirement Plan are permitted to purchase credited service for periods of active military service if the member has at least 5 years of credited service with the applicable plan, decreased from 10 years. Retroactive to August 2, 2012 and until July 1, 2017, for PSPRS, EORP and CORP, the discount rate used by the actuary for the calculation of the actuarial present value of the projected benefits is an amount equal to the assumed rate of return that is prescribed by the PSPRS Board. AS PASSED HOUSE.

ARS Titles Affected: 38

First sponsor: Rep. Stevens

**NOTE:** Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

**H2074: PUBLIC SAFETY EMPLOYEES; OMNIBUS 2/16 referred to Senate pub-mil-tech, fin.**

Various changes relating to public safety employees. Neither a public entity nor a public employee is liable for an injury caused by a peace officer if the injury was caused by any act or omission while rendering emergency care at the scene of an emergency occurrence. Employees of "other members" (defined elsewhere in statute) of purpose of the Corrections Officer Retirement Plan are eligible to participate in the Firefighter, Peace Officer and Corrections Officer Cancer Insurance Policy Program. Retroactive to August 2, 2012, for the Public Safety Personnel Retirement System, the discount rate used by the actuary for the redemption calculation for prior service (which was enacted in 2012) must be used beginning January 1.
Retirement Plan are eligible to participate in the Firefighter, Peace Officer and Corrections Officer Cancer Insurance Policy Program. Retroactive to August 2, 2012, for the Public Safety Personnel Retirement System, the discount rate used by the actuary for the redemption calculation for prior service (which was enacted in 2012) must be used beginning January 1, 2018.

ARS Titles Affected: 12 38

First sponsor: Rep. Borrelli

NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

H2074: PUBLIC SAFETY EMPLOYEES; OMNIBUS 2/4 from House mil-pub with amend #4104.

### H2237: RETIREMENT; RETURN TO WORK; RESTRICTIONS

Arizona State Retirement System, Public Safety Personnel Retirement System, and Corrections Officer Retirement Plan employers are prohibited from contracting with or leasing a retired member within one year after the member's retirement date.

ARS Titles Affected: 38

First sponsor: Rep. J. Allen

NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

### H2512: PENSION CONTRIBUTIONS; EXPENDITURE LIMIT EXEMPTION

An employer contribution to the Public Safety Personnel Retirement System made by a county or municipality in excess of the county's or municipality's required contribution is excluded from the county's or municipality's expenditure limitation established by the state Constitution.

ARS Titles Affected: 38

First sponsor: Rep. Coleman

NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

### H2583: OPEN MEETINGS; AUDIOVISUAL RECORDINGS

All public bodies are required to provide for a complete audiovisual recording of all their meetings, including executive sessions, and are required to post the audiovisual recording of a meeting on its website within 24 hours after the meeting.

ARS Titles Affected: 38

First sponsor: Rep. Stevens

NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

### H2643: PSPRS; CORP; EORP; ADMINISTRATION CHANGES

Various changes relating to public retirement systems. For the Public Safety Personnel Retirement System and the Corrections Officer Retirement Plan, the alternate contribution rate is the portion of the individual employer's total required contribution that is applied to the amortization of the unfunded actuarial accrued liability for the fiscal year, instead of to the total.
various changes relating to public retirement systems. For the Public Safety Personnel Retirement System and the Corrections Officer Retirement Plan, the alternate contribution rate is the portion of the individual employer’s total required contribution that is applied to the amortization of the unfunded actuarial accrued liability for the fiscal year, instead of to the total required contribution for all employers. For the Elected Officials’ Retirement Plan, a member who retires and who subsequently becomes an elected official, by election or appointment, is not considered reemployed by the same employer.

ARS Titles Affected: 38
First sponsor: Rep. Olson
NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

H2643: PSPRS; CORP; EORP; ADMINISTRATION CHANGES 2/8 referred to House gov-higher ed.

S1160: CORP; REVERSE DEFERRED RETIREMENT OPTION
The reverse deferred retirement option plan for members of the Corrections Officer Retirement Plan no longer terminates on June 30, 2016. Emergency clause.

ARS Titles Affected: 38
First sponsor: Sen. Smith
NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

S1160: CORP; REVERSE DEFERRED RETIREMENT OPTION 2/16 from Senate rules okay.

S1206: RETIREMENT PLANS; ELECTED OFFICIALS; OPT-OUT
If a state elected official who is subject to term limits, who is initially elected or appointed before January 1, 2014 and who has continuously elected not to participate in the Elected Officials Retirement Plan (EORP) is subsequently elected or appointed as a state elected official who is subject to term limits on or after January 1, 2014, the official is eligible to become a member of EORP or may elect not to participate. If the official becomes a member of EORP, credited service only accrues from the date of the member's most recent eligibility as a state elected official. An EORP member who is a state elected official and who is subject to term limits is permitted to elect not to accept the employer's contribution to the member's annuity account of the EORP defined contribution plan. Specified changes are retroactive to September 13, 2013.

ARS Titles Affected: 38
First sponsor: Sen. Worsley
NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

S1206: RETIREMENT PLANS; ELECTED OFFICIALS; OPT-OUT 2/17 Senate fin amended; report awaited.

S1428: PSPRS MODIFICATIONS
Various changes to statutes relating to the Public Safety Personnel Retirement System. Establishes a method for determining the employer and member contributions to PSPRS for members hired on or after July 1, 2017. Modifies the definition of “average monthly benefit compensation” for the purpose of determining PSPRS retirement benefit amounts and the definition of “normal retirement” and applies these changes only to members hired on or after
Establishes a method for determining the employer and member contributions to PSPRS for members hired on or after July 1, 2017. Modifies the definition of "average monthly benefit compensation" for the purpose of determining PSPRS retirement benefit amounts and the definition of "normal retirement" and applies these changes only to members hired on or after July 1, 2017. For members who are hired on or after July 1, 2017, the annual compensation of each member taken into account for purposes of the system cannot exceed $110,000, decreased from $200,000. Beginning in FY2020-21 and every third FY after, the PSPRS Board is required to adjust the annual compensation limit by the average change in the public safety wage index as determined by a specified method. Establishes retirement multipliers based on years of credited service for members who become a PSPRS member on or after July 1, 2017. Repeals statutes providing for benefit increases, and establishes cost-of-living adjustments for members hired on or before June 30, 2017, and for members hired on or after July 1, 2017. Increases the number of members of the PSPRS Board to nine, from seven, and modifies requirements for Board members. Establishes a 10-member PSPRS Advisory Committee. The PSPRS Board is required to establish a Public Safety Personnel Defined Contribution Plan (DC Plan) to provide for the retirement of specified participants beginning July 1, 2017. Establishes powers and duties of the Board for the DC Plan, and establishes member and employer contributions to the DC Plan. An employee who is hired on or after July 1, 2017 and who was not a member of the PSPRS on June 30, 2017 is eligible and may elect to participate in either the PSPRS or in the DC Plan, and the election made is irrevocable. The employee's participation in either system begins 90 days after the date the employee is hired. Also establishes a DC Plan disability program. More. Conditionally enacted on the state Constitution being amended as prescribed by Senate concurrent resolution 1019 by vote of the people at the special election on May 17, 2016. Severability clause. AS PASSED HOUSE.

ARS Titles Affected: [38]

First sponsor: Sen. Lesko

NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

S1428: PSPRS MODIFICATIONS 2/16 signed by governor. Chap. no. awaited.

S1429: PUBLIC RETIREMENT SYSTEMS; SPECIAL ELECTION

The purpose of the special election called by Laws 2015, first special session, chapter 2 is expanded to include proposed amendments to the state Constitution that are proposed by Senate concurrent resolution 1019 that provide for changes to public retirement systems. For the public retirement systems measure, the Legislative Council analysis and Joint Legislative Budget Committee fiscal impact statement summary, and any arguments for or against the measure must be submitted to the Secretary of State no later than February 23, 2016. Emergency clause. AS PASSED SENATE.

ARS Titles Affected: [16 41]

First sponsor: Sen. Lesko

NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

S1429: PUBLIC RETIREMENT SYSTEMS; SPECIAL ELECTION 2/16 signed by governor. Chap. no. awaited.

SCR1019: PUBLIC RETIREMENT SYSTEM BENEFITS

The 2016 general election ballot is to carry the question of whether to amend the state Constitution to provide that the Constitutional provision prohibiting public retirement system benefits from being diminished or impaired does not prohibit certain adjustments to the Public Retirement System.
The 2016 general election ballot is to carry the question of whether to amend the state Constitution to provide that the Constitutional provision prohibiting public retirement system benefits from being diminished or impaired does not prohibit certain adjustments to the Public Safety Retirement System as provided in Senate Bill 1428, and does not restrict the Legislature’s ability to modify public retirement system benefits for prospective members of public retirement systems. AS PASSED HOUSE.

ARS Titles Affected: 98

First sponsor: Sen. Lesko

NOTE: Measure was originally sponsored by the member(s) shown here. If it has been changed by amendment the sponsor(s) may or may not still support the measure.

SCR1019: PUBLIC RETIREMENT SYSTEM BENEFITS 2/15 Senate concurred on House amendments and passed on final reading 28-0; to secretary of state.
### SB1428 Pension Reform Matrix of Changes

<table>
<thead>
<tr>
<th></th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hire Date</strong></td>
<td>Before January 1, 2012</td>
<td>On or after January 1, 2012</td>
<td>On or after July 1, 2017</td>
</tr>
<tr>
<td><strong>Plan Type</strong></td>
<td>Defined Benefit</td>
<td>Defined Benefit</td>
<td>Defined Contribution or Defined Benefit w/ Hybrid (for non-Social Security)</td>
</tr>
<tr>
<td><strong>Determination</strong></td>
<td>Automatic</td>
<td>Automatic</td>
<td>Irrevocable choice (90 days)</td>
</tr>
<tr>
<td><strong>Employee</strong></td>
<td>11.65% with 4% maintenance of effort (MOE)</td>
<td>DB: 50/50 split with ER</td>
<td>DC: 9%</td>
</tr>
<tr>
<td><strong>Contribution Rate</strong></td>
<td></td>
<td></td>
<td>Hybrid: DB + 3%</td>
</tr>
<tr>
<td><strong>Salary Cap</strong></td>
<td>As set by Internal Revenue Code</td>
<td>$110,000 adjusted by index</td>
<td></td>
</tr>
<tr>
<td><strong>Inter-System</strong></td>
<td>Total liability is transferred to new employer with assets transferred at market funding level.</td>
<td>Total liability stays with previous employer.</td>
<td></td>
</tr>
<tr>
<td><strong>Average Salary</strong></td>
<td>High 3 in past 20 years</td>
<td>High 5 in past 20 years</td>
<td>High 5 in past 15 years</td>
</tr>
<tr>
<td><strong>Normal Retirement</strong></td>
<td>20 years, no age</td>
<td>25 years</td>
<td>15 years</td>
</tr>
<tr>
<td></td>
<td>15 years, age 62</td>
<td>age 52.5</td>
<td>age 55</td>
</tr>
<tr>
<td><strong>Multipliers</strong></td>
<td>50% plus</td>
<td>62.5% plus</td>
<td>15 to &lt;17 years: 1.50%</td>
</tr>
<tr>
<td></td>
<td>2.0% for years &gt;20 and &lt;25</td>
<td>2.5% for years &gt;25</td>
<td>17 to &lt;19 years: 1.75%</td>
</tr>
<tr>
<td></td>
<td>2.5% for years &gt;25</td>
<td>(reduced by 4% for &lt;20 yrs)</td>
<td>19 to &lt;22 years: 2.00%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>22 to &lt;25 years: 2.25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>25+ years: 2.50%</td>
</tr>
<tr>
<td><strong>Benefit Increases</strong></td>
<td>CPI-based COLA, 2% cap, no funding requirement, and no waiting period</td>
<td>CPI-based COLA w/ caps (after 7 years or age 60)</td>
<td>70% to &lt;80% funded: 1.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>80% to &lt;90% funded: 1.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>90% or more funded: 2.0%</td>
</tr>
<tr>
<td><strong>Smoothing Period</strong></td>
<td>Determined by Board (currently 7 years)</td>
<td>Not more than 5 years</td>
<td></td>
</tr>
<tr>
<td><strong>Amortization Period</strong></td>
<td>Closed period of not more than 20 years</td>
<td>Not more than 10 years</td>
<td></td>
</tr>
</tbody>
</table>

Additional changes:

- Increases Board of Trustees to 9 members and changes representation
- Creates 10-member Advisory Committee
- Codifies uniform language for fiduciary responsibilities
- Requires the Board to study risk pooling and local board consolidation to determine best method
SENATE BILL 1428

AN ACT

AMENDING SECTIONS 38-651.01, 38-803 AND 38-842, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-842.01; AMENDING SECTIONS 38-843, 38-843.04, 38-844.05 AND 38-845, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-845.03; AMENDING SECTIONS 38-846.01 AND 38-848, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-848.04; REPEALING SECTIONS 38-856, 38-856.01, 38-856.02, 38-856.03 AND 38-856.04, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 38-856.05, 38-856.06 AND 38-861; AMENDING TITLE 38, CHAPTER 5, ARIZONA REVISED STATUTES, BY ADDING ARTICLES 4.1 AND 4.2; AMENDING SECTIONS 38-883 AND 38-952, ARIZONA REVISED STATUTES; RELATING TO THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 38-651.01, Arizona Revised Statutes, is amended to read:

38-651.01. Group health and accident coverage for retired public employees and elected officials and their dependents

A. The department of administration, by rule, shall adopt standards to establish group health and accident coverage for former employees who worked for the state of Arizona and who opt on retirement to enroll or continue enrollment in the group health and accident coverage for active employees working for the state of Arizona, or with a disability, and receiving either income from a retirement program of this state or long-term disability income benefits pursuant to section 38-651.03 or chapter 5, article 2.1 of this title and their dependents and to establish eligibility for retired STATE EMPLOYEES or state employees with a disability to participate in the coverage. The department of administration may adopt rules that provide that if a retired INSURED or insured person with a disability dies before an insured surviving dependent, the insured surviving dependent is entitled to extended coverage at group rates if the insured surviving dependent elects to continue in the coverage within six months of THE DEATH OF the retired INSURED or insured person's PERSON with a disability death and the insured surviving dependent agrees to pay the cost of the premium for group health and accident insurance. On notification of the retired or with a disability insured's death, the department of administration shall immediately notify an insured surviving dependent of the provisions of this section. The department of administration may enter into agreements with former state employees with a disability and their dependents who elect to obtain the coverage provided by this section. The agreements may include provisions for the payment of amounts sufficient to pay for the premium and administrative expense of providing the coverage. The department of administration may adopt rules that provide that on the death of a state employee who at the time of death was eligible for normal retirement pursuant to section 38-757 under the Arizona state retirement system, the insured surviving spouse and eligible dependent children are entitled to continue coverage under group rates provided that the deceased insured state employee, spouse and dependent children were insured at the time of the employee's death. The insured surviving spouse shall be charged an amount sufficient to pay the full premium for the coverage.

B. The department of administration, by rule, may adopt standards to establish group health and accident coverage for former elected officials of this state or its political subdivisions and their dependents and to establish eligibility for former elected officials to participate in the coverage. Qualifications for eligibility shall include that the former elected official has at least five years of credited service in the elected officials' retirement plan pursuant to chapter 5 of this title, had been
covered under a group health or group health and accident plan while serving as an elected official and had been serving as an elected official on or after January 1, 1983. The department of administration may adopt rules that provide that on the death of an elected official or insured former elected official, the insured surviving spouse is entitled to coverage at group rates provided that the deceased insured former elected official met or would have met the qualifications for eligibility pursuant to this subsection or that the deceased elected official would have met the qualifications for eligibility had the deceased not been in office at the time of death. Except as provided in subsection J of this section, the insured former elected official or the insured surviving spouse shall be charged amounts that are sufficient to pay for the premium and state administrative expense of providing coverage. Notwithstanding subsection J of this section, the standards shall provide that all or any portion of the former state employees or former elected officials or their dependents shall be grouped with officers and employees of the state and its departments and agencies or their dependents as necessary to obtain health and accident coverage at favorable rates.

C. The Arizona state retirement system board may enter into agreements with retired and state employee members of the system and plan with WHO ARE RETIRED OR WHO HAVE a disability, and retired members of the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title AND RETIRED PARTICIPANTS OF THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE who elect to obtain the coverage provided pursuant to subsection A of this section. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain coverage of amounts sufficient to pay for the premium not covered under retirement benefits and state administrative expense of providing coverage.

D. Retired state employee MEMBERS or state employee members with a disability of the public safety personnel retirement system, THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE, the elected officials' retirement plan, the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title, the corrections officer retirement plan or the optional retirement programs authorized pursuant to section 15-1628 who opt on retirement to enroll or continue enrollment in the group health and accident coverage for active employees working for the state of Arizona and their dependents and who are receiving benefits from the public safety personnel retirement system, THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE, the elected officials' retirement plan, the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title, the corrections officer
retirement plan or the optional retirement programs authorized pursuant to section 15-1628 may participate in group health and accident coverage provided pursuant to this section. The department of administration shall adopt rules that are necessary for the implementation of this subsection.

E. The board of trustees of the public safety personnel retirement system may enter into agreements with retired state employee members and their dependents who elect to obtain the coverage provided pursuant to this section. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain coverage of amounts sufficient to pay for the premium not covered under retirement benefits and state administrative expense of providing coverage.

F. The board of trustees of the public safety personnel retirement system may enter into agreements with retired judges and retired elected officials and their dependents who elect to obtain the coverage provided pursuant to this section. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain coverage of amounts sufficient to pay for the premium not covered under retirement benefits and state administrative expense of providing coverage.

G. The board of trustees of the public safety personnel retirement system may contract with an insurance carrier and adopt standards to establish a group health and accident insurance coverage program for retired members of the public safety personnel retirement system, their dependents and their spouses. Any members or spouses who elect to obtain the group health and accident coverage provided under this subsection shall agree to a deduction from their monthly retirement benefits of an amount sufficient to pay for the premium not covered under retirement benefits and the administrative expense of providing coverage.

H. A county board of supervisors may enter into agreements to establish group health and accident coverage for retired COUNTY EMPLOYEES or county employees with a disability and their dependents who elect to obtain the coverage provided pursuant to section 11-263, subsection B. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain the coverage of amounts sufficient to pay for the premium not covered under retirement benefits and the administrative expense of providing for the coverage.

I. Nonmedicare eligible retirees who live in this state, who enroll in a qualifying plan under this section and who reside outside the area of a qualifying health maintenance organization shall be offered the option to enroll with a qualified health maintenance organization offered through their provider under the same premiums as if they lived within the area boundaries of the qualified health maintenance organization provided that:
1. All medical services are rendered and received at an office designated by the qualifying health maintenance organization or at a facility referred by the health maintenance organization.

2. All nonemergency or nonurgent travel, ambulatory and other expenses from the residence area of the retiree to the designated office of the qualifying health maintenance organization or the facility referred by the health maintenance organization are the responsibility of and at the expense of the retiree.

3. All emergency or urgent travel, ambulatory and other expenses from the residence area of the retiree to the designated office of the qualifying health maintenance organization or the facility referred by the health maintenance organization shall be paid pursuant to any agreement between the health maintenance organization and the retiree living outside the area of the qualifying health maintenance organization.

J. Public funds shall not be expended to pay all or any part of the premium of insurance pursuant to this section except for monies authorized to be paid for any insured from the retirement plan from which the insured is receiving benefits.

K. A retired member of the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title may elect to obtain the coverage provided pursuant to subsection A of this section, but shall pay the premium for the coverage selected and is not eligible for benefits pursuant to section 38-783 or 38-817.

L. A RETIRED PARTICIPANT OF THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE MAY ELECT TO OBTAIN THE COVERAGE PROVIDED PURSUANT TO SUBSECTION A OF THIS SECTION, BUT SHALL PAY THE PREMIUM FOR THE COVERAGE SELECTED AND IS NOT ELIGIBLE FOR BENEFITS PURSUANT TO SECTION 38-783 OR 38-857.

Sec. 2. Section 38-803, Arizona Revised Statutes, is amended to read:

38-803. Powers and duties of the board

A. The board, in the administration, management and operation of the plan and fund, shall:

1. Account for the operation, administration and investment expenses and allocate them against investment income.

2. Contract on a fee basis with an actuary to make an actuarial valuation of the plan based on the valuation method and valuation assumptions recommended by the actuary and approved by the board. The actuary shall be a member of the American academy of actuaries.

3. Contract on a fee basis with an independent auditing firm to make an annual audit of the accounting records of the fund and file a copy of the audit with the auditor general.

4. Invest the monies in the fund as provided in article 4 of this chapter.
5. Within a period of six months after the close of each fiscal year, submit a detailed report of the operation and the investment performance of the plan to the governor, the legislature and the members of the plan.

6. By November 1 of each year provide a preliminary report and by December 15 of each year provide a final report to the governor, the speaker of the house of representatives and the president of the senate on the contribution rate for the ensuing fiscal year.

B. The board, in the administration, management and operation of the plan and fund, may:

1. Employ services as it deems necessary.

2. Either keep invested monies separate or commingle invested monies as it deems appropriate.

3. Delegate authority as it deems necessary and prudent to the administrator employed pursuant to section 38-848, subsection M, paragraph 6.

4. Do all acts, whether expressly authorized, which may be deemed necessary or proper for the protection of the fund.

Sec. 3. Section 38-842, Arizona Revised Statutes, is amended to read:

38-842. Definitions

In this article, unless the context otherwise requires:

1. "Accidental disability" means a physical or mental condition that the local board finds totally and permanently prevents an employee from performing a reasonable range of duties within the employee's job classification and that was incurred in the performance of the employee's duty.

2. "Accumulated contributions" means, for each member, the sum of the amount of the member's aggregate contributions made to the fund and the amount, if any, attributable to the employee's contributions before the member's effective date under another public retirement system, other than the federal social security act, and transferred to the fund minus the benefits paid to or on behalf of the member.

3. "Actuarial equivalent" means equality in present value of the aggregate amounts expected to be received under two different forms of payment, based on mortality and interest assumptions adopted by the board.

4. "Alternate payee" means the spouse or former spouse of a participant as designated in a domestic relations order.

5. "Alternate payee's portion" means benefits that are payable to an alternate payee pursuant to a plan approved domestic relations order.

6. "Annuitant" means a person who is receiving a benefit pursuant to section 38-846.01.

7. "Average monthly benefit compensation" means the result obtained by dividing the total compensation paid to an employee during a considered period by the number of months, including fractional months, in which such compensation was received. For an employee who becomes a member of the system:
(a) Before January 1, 2012, the considered period shall be the three
consecutive years within the last twenty completed years of credited service
that yield the highest average. For an employee who becomes a member of the
system

(b) On or after January 1, 2012 AND BEFORE JULY 1, 2017, the
considered period is the five consecutive years within the last twenty
completed years of credited service that yield the highest average. In the
computation under this paragraph, a period of nonpaid or partially paid
industrial leave shall be considered based on the compensation the employee
would have received in the employee's job classification if the employee was
not on industrial leave.

(c) ON OR AFTER JULY 1, 2017, THE CONSIDERED PERIOD IS THE FIVE
CONSECUTIVE YEARS WITHIN THE LAST FIFTEEN COMPLETED YEARS OF CREDITED SERVICE
THAT YIELD THE HIGHEST AVERAGE. IN THE COMPUTATION UNDER THIS PARAGRAPH, A
PERIOD OF NONPAID OR PARTIALLY PAID INDUSTRIAL LEAVE SHALL BE CONSIDERED
BASED ON THE COMPENSATION THE EMPLOYEE WOULD HAVE RECEIVED IN THE EMPLOYEE'S
JOB CLASSIFICATION IF THE EMPLOYEE WAS NOT ON INDUSTRIAL LEAVE.

8. "Board" means the board of trustees of the system, who are the
persons appointed to invest and operate the fund.

9. "Catastrophic disability" means a physical and not a psychological
condition that the local board determines prevents the employee from totally
and permanently engaging in any gainful employment and that results from a
physical injury incurred in the performance of the employee's duty.

10. "Certified peace officer" means a peace officer certified by the
Arizona peace officer standards and training board.

11. "Claimant" means any member or beneficiary who files an
application for benefits pursuant to this article.

12. "Compensation" means, for the purpose of computing retirement
benefits, base salary, overtime pay, shift differential pay, military
differential wage pay, compensatory time used by an employee in lieu of
overtime not otherwise paid by an employer and holiday pay paid to an
employee by the employer for the employee's performance of services in an
eligible group on a regular monthly, semimonthly or biweekly payroll basis
and longevity pay paid to an employee at least every six months for which
contributions are made to the system pursuant to section 38-843,
subsection D. Compensation does not include, for the purpose of computing
retirement benefits, payment for unused sick leave, payment in lieu of
vacation, payment for unused compensatory time or payment for any fringe
benefits. In addition, compensation does not include, for the purpose of
computing retirement benefits, payments made directly or indirectly by the
employer to the employee for work performed for a third party on a contracted
basis or any other type of agreement under which the third party pays or
reimburses the employer for the work performed by the employee for that third
party, except for third party contracts between public agencies for law
enforcement, criminal, traffic and crime suppression activities training or
fire, wildfire, emergency medical or emergency management activities or where
the employer supervises the employee's performance of law enforcement,
criminal, traffic and crime suppression activities training or fire,
wildfire, emergency medical or emergency management activities. For the
purposes of this paragraph, "base salary" means the amount of compensation
each employee is regularly paid for personal services rendered to an employer
before the addition of any extra monies, including overtime pay, shift
differential pay, holiday pay, longevity pay, fringe benefit pay and similar
extra payments.

13. "Credited service" means the member's total period of service
before the member's effective date of participation, plus those compensated
periods of the member's service thereafter for which the member made
contributions to the fund.

14. "Cure period" means the ninety-day period in which a participant
or alternate payee may submit an amended domestic relations order and request
a determination, calculated from the time the system issues a determination
finding that a previously submitted domestic relations order did not qualify
as a plan approved domestic relations order.

15. "Depository" means a bank in which all monies of the system are
deposited and held and from which all expenditures for benefits, expenses and
investments are disbursed.

16. "Determination" means a written document that indicates to a
participant and alternate payee whether a domestic relations order qualifies
as a plan approved domestic relations order.

17. "Determination period" means the ninety-day period in which the
system must review a domestic relations order that is submitted by a
participant or alternate payee to determine whether the domestic relations
order qualifies as a plan approved domestic relations order, calculated from
the time the system mails a notice of receipt to the participant and
alternate payee.

18. "Direct rollover" means a payment by the system to an eligible
retirement plan that is specified by the distributee.

19. "Distributee" means a member, a member's surviving spouse or a
member's spouse or former spouse who is the alternate payee under a plan
approved domestic relations order.

20. "Domestic relations order" means an order of a court of this state
that is made pursuant to the domestic relations laws of this state and that
creates or recognizes the existence of an alternate payee's right to, or
assigns to an alternate payee the right to, receive a portion of the benefits
payable to a participant.

21. "Effective date of participation" means July 1, 1968, except with
respect to employers and their covered employees whose contributions to the
fund commence thereafter, the effective date of their participation in the
system is as specified in the applicable joinder agreement.
22. "Effective date of vesting" means the date a member's rights to benefits vest pursuant to section 38-844.01.

23. "Eligible child" means an unmarried child of a deceased member or retired member who meets one of the following qualifications:
   (a) Is under eighteen years of age.
   (b) Is at least eighteen years of age and under twenty-three years of age only during any period that the child is a full-time student.
   (c) Is under a disability that began before the child attained twenty-three years of age and remains a dependent of the surviving spouse or guardian.

24. "Eligible groups" means only the following who are regularly assigned to hazardous duty:
   (a) Municipal police officers who are certified peace officers.
   (b) Municipal fire-fighters.
   (c) Paid full-time fire-fighters employed directly by a fire district organized pursuant to section 48-803 or 48-804 or a joint powers authority pursuant to section 48-805.01 with three or more full-time fire-fighters employed by a fire district pursuant to a contract with a corporation.
   (d) State highway patrol officers who are certified peace officers.
   (e) State fire-fighters.
   (f) County sheriffs and deputies who are certified peace officers.
   (g) Game and fish wardens who are certified peace officers.
   (h) Police officers who are certified peace officers and fire-fighters of a nonprofit corporation operating a public airport pursuant to sections 28-8423 and 28-8424. A police officer shall be designated pursuant to section 28-8426 to aid and supplement state and local law enforcement agencies and a fire-fighter's sole duty shall be to perform fire-fighting services, including services required by federal regulations.
   (i) Police officers who are certified peace officers and who are appointed by the Arizona board of regents.
   (j) Police officers who are certified peace officers and who are appointed by a community college district governing board.
   (k) State attorney general investigators who are certified peace officers.
   (l) County attorney investigators who are certified peace officers.
   (m) Police officers who are certified peace officers and who are employed by an Indian reservation police agency.
   (n) Fire-fighters who are employed by an Indian reservation fire-fighting agency.
   (o) Department of liquor licenses and control investigators who are certified peace officers.
   (p) Arizona department of agriculture officers who are certified peace officers.
(q) Arizona state parks board rangers and managers who are certified peace officers.

(r) County park rangers who are certified peace officers.

25. "Eligible retirement plan" means any of the following that accepts a distributee's eligible rollover distribution:
   (a) An individual retirement account described in section 408(a) of the internal revenue code.
   (b) An individual retirement annuity described in section 408(b) of the internal revenue code.
   (c) An annuity plan described in section 403(a) of the internal revenue code.
   (d) A qualified trust described in section 401(a) of the internal revenue code.
   (e) An annuity contract described in section 403(b) of the internal revenue code.
   (f) An eligible deferred compensation plan described in section 457(b) of the internal revenue code that is maintained by a state, a political subdivision of a state or any agency or instrumentality of a state or a political subdivision of a state and that agrees to separately account for amounts transferred into the eligible deferred compensation plan from this plan.

26. "Eligible rollover distribution" means a payment to a distributee, but does not include any of the following:
   (a) Any distribution that is one of a series of substantially equal periodic payments made not less frequently than annually for the life or life expectancy of the member or the joint lives or joint life expectancies of the member and the member's beneficiary or for a specified period of ten years or more.
   (b) Any distribution to the extent the distribution is required under section 401(a)(9) of the internal revenue code.
   (c) The portion of any distribution that is not includable in gross income.
   (d) Any distribution made to satisfy the requirements of section 415 of the internal revenue code.
   (e) Hardship distributions.
   (f) Similar items designated by the commissioner of the United States internal revenue service in revenue rulings, notices and other guidance published in the internal revenue bulletin.

27. "Employee" means any person who is employed by a participating employer and who is a member of an eligible group but does not include any persons compensated on a contractual or fee basis. If an eligible group requires certified peace officer status or fire-fighter certification and at the option of the local board, employee may include a person who is training to become a certified peace officer or fire-fighter.
28. "Employers" means:
   (a) Cities contributing to the fire fighters' relief and pension fund as provided in sections 9-951 through 9-971 or statutes amended thereby and antecedent thereto, as of June 30, 1968 on behalf of their full-time paid fire fighters.
   (b) Cities contributing under the state police pension laws as provided in sections 9-911 through 9-934 or statutes amended thereby and antecedent thereto, as of June 30, 1968 on behalf of their municipal policemen.
   (c) The state highway patrol covered under the state highway patrol retirement system.
   (d) The state, or any political subdivision of this state, including towns, cities, fire districts, joint powers authorities, counties and nonprofit corporations operating public airports pursuant to sections 28-8423 and 28-8424, that has elected to participate in the system on behalf of an eligible group of public safety personnel pursuant to a joinder agreement entered into after July 1, 1968.
   (e) Indian tribes that have elected to participate in the system on behalf of an eligible group of public safety personnel pursuant to a joinder agreement entered into after July 1, 1968.

29. "Fund" means the public safety personnel retirement fund, which is the fund established to receive and invest contributions accumulated under the system and from which benefits are paid.

30. "Local board" means the retirement board of the employer, who are the persons appointed to administer the system as it applies to their members in the system.

31. "Member":
   (a) Means any full-time employee who meets all of the following qualifications:
       (i) Who is either a paid municipal police officer, a paid fire fighter, a law enforcement officer who is employed by this state including the director thereof, a state fire fighter who is primarily assigned to fire fighting duties, a fire fighter or police officer of a nonprofit corporation operating a public airport pursuant to sections 28-8423 and 28-8424, all ranks designated by the Arizona law enforcement merit system council, a state attorney general investigator who is a certified peace officer, a county attorney investigator who is a certified peace officer, a department of liquor licenses and control investigator who is a certified peace officer, an Arizona department of agriculture officer who is a certified peace officer, an Arizona state parks board ranger or manager who is a certified peace officer, a county park ranger who is a certified peace officer, a person who is a certified peace officer and who is employed by an Indian reservation police agency, a fire fighter who is employed by an Indian reservation fire fighting agency or an employee included in a group designated as eligible.
employees under a joinder agreement entered into by their employer after July
1, 1968 and who is or was regularly assigned to hazardous duty or, beginning
retroactively to January 1, 2009, who is a police chief or a fire chief.

(++) (ii) Who, on or after the employee's effective date of
participation, is receiving compensation for personal services rendered to an
employer or would be receiving compensation except for an authorized leave of
absence.

(++) (iii) Whose customary employment is at least forty hours per week
or, for those employees who customarily work fluctuating work weeks,
whose customary employment averages at least forty hours per week.

(++) (iv) Who is engaged to work for more than six months in a
calendar year.

(++) (v) Who, if economic conditions exist, is required to take
furlough days or reduce the hours of the employee's normal work week below
forty hours but not less than thirty hours per pay cycle, and maintain
the employee's active member status within the system as long as the hour
change does not extend beyond twelve consecutive months.

(++) (vi) Who has not attained age sixty-five before the employee's
effective date of participation or who was over age sixty-five with
twenty-five years or more of service prior to the employee's effective date
of participation.

(b) DOES NOT INCLUDE AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1,
2017, WHO MAKES THE IRREVOCABLE ELECTION TO PARTICIPATE SOLELY IN THE PUBLIC
SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO
ARTICLE 4.1 OF THIS CHAPTER AND WHO WAS NOT AN ACTIVE, AN INACTIVE OR A
RETIRED MEMBER OF THE SYSTEM OR A MEMBER OF THE SYSTEM WITH A DISABILITY ON
JUNE 30, 2017.

32. "Normal retirement date" means:

(a) For an employee who becomes a member of the system before January
1, 2012, the first day of the calendar month immediately following the
employee's completion of twenty years of service or the employee's
sixty-second birthday and the employee's completion of fifteen years of
service.

(b) For an employee who becomes a member of the system on or after
January 1, 2012 AND BEFORE JULY 1, 2017, the first day of the calendar month
immediately following the employee's completion of twenty-five years of
service if the employee is at least fifty-two and one-half years of age.

(c) FOR AN EMPLOYEE WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER
JULY 1, 2017, THE FIRST DAY OF THE CALENDAR MONTH IMMEDIATELY FOLLOWING THE
EMPLOYEE'S COMPLETION OF FIFTEEN YEARS OF CREDITED SERVICE IF THE EMPLOYEE IS
AT LEAST FIFTY-FIVE YEARS OF AGE.

33. "Notice of receipt" means a written document that is issued by the
system to a participant and alternate payee and that states that the system
has received a domestic relations order and a request for a determination
that the domestic relations order is a plan approved domestic relations order.

34. "Ordinary disability" means a physical condition that the local board determines will prevent an employee totally and permanently from performing a reasonable range of duties within the employee's department or a mental condition that the local board determines will prevent an employee totally and permanently from engaging in any substantial gainful activity.

35. "Participant" means a member who is subject to a domestic relations order.

36. "Participant's portion" means benefits that are payable to a participant pursuant to a plan approved domestic relations order.

37. "Pension" means a series of monthly amounts that are payable to a person who is entitled to receive benefits under the plan but does not include an annuity that is payable pursuant to section 38-846.01.

38. "Personal representative" means the personal representative of a deceased alternate payee.

39. "Physician" means a physician who is licensed pursuant to title 32, chapter 13 or 17.

40. "Plan approved domestic relations order" means a domestic relations order that the system approves as meeting all the requirements for a plan approved domestic relations order as otherwise prescribed in this article.

41. "Plan year" or "fiscal year" means the period beginning on July 1 of any year and ending on June 30 of the next succeeding year.

42. "Regularly assigned to hazardous duty" means regularly assigned to duties of the type normally expected of municipal police officers, municipal or state fire fighters, eligible fire district fire fighters, state highway patrol officers, county sheriffs and deputies, fish and game wardens, fire fighters and police officers of a nonprofit corporation operating a public airport pursuant to sections 28-8423 and 28-8424, police officers who are appointed by the Arizona board of regents or a community college district governing board, state attorney general investigators who are certified peace officers, county attorney investigators who are certified peace officers, department of liquor licenses and control investigators who are certified peace officers, Arizona department of agriculture officers who are certified peace officers, Arizona state parks board rangers and managers who are certified peace officers, county park rangers who are certified peace officers, police officers who are certified peace officers and who are employed by an Indian reservation police agency or fire fighters who are employed by an Indian reservation fire fighting agency. Those individuals who are assigned solely to support duties such as secretaries, stenographers, clerical personnel, clerks, cooks, maintenance personnel, mechanics and dispatchers are not assigned to hazardous duty regardless of their position classification title. Since the normal duties of those jobs described in
this paragraph are constantly changing, questions as to whether a person is
or was previously regularly assigned to hazardous duty shall be resolved by
the local board on a case-by-case basis. Resolutions by local boards are
subject to rehearing and appeal.

43. "Retirement" or "retired" means termination of employment after a
member has fulfilled all requirements for a pension for, for an employee who
becomes a member of the system on or after January 1, 2012 AND BEFORE JULY 1,
2017, attains the age and service requirements for a normal retirement date
OR FOR AN EMPLOYEE WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER JULY 1,
2017 ATTAINS THE AGE AND CREDITED SERVICE REQUIREMENTS FOR A NORMAL
RETIREMENT DATE. Retirement shall be considered as commencing on the first
day of the month immediately following a member's last day of employment or
authorized leave of absence, if later.

44. "Segregated funds" means the amount of benefits that would
currently be payable to an alternate payee pursuant to a domestic relations
order under review by the system, or a domestic relations order submitted to
the system that failed to qualify as a plan approved domestic relations
order, if the domestic relations order were determined to be a plan approved
domestic relations order.

45. "Service" means the last period of continuous employment of an
employee by the employers before the employee's retirement, except that if
such period includes employment during which the employee would not have
qualified as a member had the system then been effective, such as employment
as a volunteer firefighter, then only twenty-five percent of
such noncovered employment shall be considered as service. Any absence that
is authorized by an employer shall not be considered as interrupting
continuity of employment if the employee returns within the period of
authorized absence. Transfers between employers also shall not be considered
as interrupting continuity of employment. Any period during which a member
is receiving sick leave payments or a temporary disability pension shall be
considered as service. Notwithstanding any other provision of this
paragraph, any period during which a person was employed as a full-time paid
firefighter for a corporation that contracted with an employer
to provide firefighting services on behalf of the employer shall be
considered as service if the employer has elected at its option to treat part
or all of the period the firefighter worked for the company as service in its
applicable joinder agreement. Any reference in this system to the number of
years of service of an employee shall be deemed to include fractional
portions of a year.

46. "State" means the state of Arizona, including any department,
office, board, commission, agency or other instrumentality of the state.

47. "System" means the public safety personnel retirement system
established by this article.

48. "Temporary disability" means a physical or mental condition that
the local board finds totally and temporarily prevents an employee from
performing a reasonable range of duties within the employee's department and
that was incurred in the performance of the employee's duty.

Sec. 4. Title 38, chapter 5, article 4, Arizona Revised Statutes, is
amended by adding section 38-842.01, to read:

38-842.01. Benefit election; eligibility; disability; employees

A. AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1, 2017 AND WHO WAS NOT
AN ACTIVE, AN INACTIVE OR A RETIRED MEMBER OF THE SYSTEM OR A MEMBER OF THE
SYSTEM WITH A DISABILITY ON JUNE 30, 2017 IS ELIGIBLE TO PARTICIPATE IN THE
SYSTEM OR THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN
ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER, DEPENDING ON THE
EMPLOYEE'S ELECTION UNDER THIS SECTION. THE EMPLOYEE'S PARTICIPATION IN
EITHER THE SYSTEM OR THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION
RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER BEGINS
NINETY DAYS AFTER THE DATE THE EMPLOYEE IS HIRED. UNLESS THE ELECTIONS MADE
UNDER THIS SECTION ARE MADE BEFORE THE NINETIETH DAY AFTER THE DATE OF
EMPLOYMENT, THE EMPLOYEE IS AUTOMATICALLY ENROLLED IN THE SYSTEM FOR THE
REMAINDER OF THE EMPLOYEE'S EMPLOYMENT WITH ANY EMPLOYER UNDER THE SYSTEM.
ANY ELECTION MADE UNDER THIS SECTION IS IRREVOCABLE AND IS THE EMPLOYEE'S
ELECTION FOR THE REMAINDER OF THE EMPLOYEE'S EMPLOYMENT WITH ANY EMPLOYER
UNDER THE SYSTEM, REGARDLESS OF WHETHER THE EMPLOYEE'S EMPLOYMENT IS
CONTINUOUS. THE EMPLOYEE MAY MAKE ONE OF THE FOLLOWING IRREVOCABLE
ELECTIONS:

1. TO PARTICIPATE SOLELY IN THE SYSTEM.

2. TO PARTICIPATE SOLELY IN THE PUBLIC SAFETY PERSONNEL DEFINED
CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS
CHAPTER.

B. AN EMPLOYEE WHO MAKES AN ELECTION TO PARTICIPATE SOLELY IN THE
SYSTEM OR IS AUTOMATICALLY ENROLLED IN THE SYSTEM PURSUANT TO SUBSECTION A OF
THIS SECTION AND WHO IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS
INSURANCE SYSTEM IS ALSO ENROLLED IN THE PUBLIC SAFETY PERSONNEL DEFINED
CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS
CHAPTER DURING ANY PERIOD THAT THE EMPLOYEE IS NOT COVERED BY THE FEDERAL OLD
AGE AND SURVIVORS INSURANCE SYSTEM THROUGH AN EMPLOYER UNDER THE SYSTEM. IF
SUCH EMPLOYEE IS SUBSEQUENTLY COVERED BY THE FEDERAL OLD AGE AND SURVIVORS
INSURANCE SYSTEM, THE EMPLOYEE MAY NOT MAKE ANY CONTRIBUTIONS TO THE PUBLIC
SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO
ARTICLE 4.1 OF THIS CHAPTER THAT ARE DESCRIBED IN SECTION 38-867, SUBSECTION A, PARAGRAPH 1 OR SUBSECTION B DURING THE PERIOD THE EMPLOYEE IS COVERED BY
THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM. IF AT ANY LATER TIME THE
EMPLOYEE IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM
THROUGH AN EMPLOYER UNDER THE SYSTEM, THE EMPLOYEE SHALL AGAIN BE REQUIRED TO
CONTRIBUTE TO THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT
PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER AS REQUIRED BY
SECTION 38-867, SUBSECTION A, PARAGRAPH 1 AND, IF THE EMPLOYEE MADE AN
IRREVOCABLE ELECTION TO CONTRIBUTE MORE OF THE EMPLOYEE'S GROSS PENSIONABLE COMPENSATION TO THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION PLAN AS PROVIDED IN SECTION 38-867, SUBSECTION B, SUCH CONTRIBUTIONS SHALL BE REESTABLISHED FOR THE PERIOD THE EMPLOYEE IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM.

C. If an employee in the employee's first ninety days of employment is determined to be eligible for an accidental disability pension pursuant to section 38-844, the employee shall be automatically enrolled in the system for the remainder of the employee's employment with any employer under the system commencing on the employee's date of disability and shall receive an accidental disability pension as prescribed in this article.

Sec. 5. Section 38-843, Arizona Revised Statutes, is amended to read:

38-843. Contributions

A. Each employer who participates in the system on behalf of a group of employees who were covered under a prior public retirement system, other than the federal social security act, shall transfer all securities and monies attributable to the taxes and contributions of the state other than the state contribution to social security, the employer and the employees for the covered group of employees under the other system, such transfer to be made to the fund subject to all existing liabilities and on or within sixty days following the employer's effective date. All monies and securities transferred to the fund shall be credited to the employer's account in the fund. A record of the market value and the cost value of such transferred contributions shall be maintained for actuarial and investment purposes.

B. As determined by actuarial valuations reported to the employer and the local board by the board of trustees, each employer shall make level percent of compensation contributions sufficient under such actuarial valuations to meet both the normal cost for members hired before July 1, 2017 plus the actuarially determined amount required to amortize the unfunded accrued liability on a level percent of compensation basis for all employees of the employer who are members of the system or participants as defined in section 38-865, paragraph 7, subdivision (a) over, beginning July 1, 2005-2017, a rolling closed period of at least not more than twenty and not more than thirty years that is established by the board of trustees taking into account the recommendation of the system's actuary, except that, beginning with fiscal year 2006-2007, except as otherwise provided, the employer contribution rate shall not be less than eight percent of compensation. For any employer whose actual contribution rate is less than eight percent of compensation for fiscal year 2006-2007, that employer's contribution rate is not subject to the eight percent minimum but, for fiscal year 2006-2007 and each year thereafter, shall be at least five percent and not more than the employer's actual contribution rate. An employer shall have the option of paying a higher level percent of compensation thereby reducing its unfunded past service liability. An employer shall also have the option of increasing its...
contributions in order to reduce the contributions required from its members under subsection C of this section, except that if an employer elects this option the employer shall pay the same higher level percentage contribution for all members of the eligible group. A county employer that elected to pay a higher level percentage contribution rate may eliminate that higher level percentage contribution rate amount for members who are hired on or after January 1, 2015. During a period when an employee is on industrial leave and the employee elects to continue contributions during the period of industrial leave, the employer shall make the contributions based on the compensation the employee would have received in the employee's job classification if the employee was in normal employment status. All contributions made by the employers and all state taxes allocated to the fund shall be irrevocable and shall be used to pay benefits under the system or to pay expenses of the system and fund. The minimum employer contribution that is paid and that is in excess of the normal cost plus the actuarially determined amount required to amortize the unfunded accrued liability as calculated pursuant to this subsection shall be used to reduce future employer contribution increases and shall not be used to pay for an increase in benefits that are otherwise payable to members. The board shall separately account for these monies in the fund. Forfeitures arising because of severance of employment before a member becomes eligible for a pension or any other reason shall be applied to reduce the cost of the employer, not to increase the benefits otherwise payable to members. After the close of any fiscal year, if the system's actuary determines that the actuarial valuation of an employer's account contains excess valuation assets other than excess valuation assets that were in the employer's account as of fiscal year 2004-2005 and is more than one hundred percent of the excess valuation assets in a stabilization reserve account. After the close of any fiscal year, if the system's actuary determines that the actuarial valuation of an employer's account has a valuation asset deficiency and an unfunded actuarial accrued liability, the board shall use any valuation assets in the stabilization reserve account for that employer, to the extent available, to limit the decline in that employer's funding ratio to not more than two percent.

C. Each member who was hired before July 1, 2017, throughout the member's period of service from the member's effective date of participation, shall contribute to the fund an amount equal to the amount prescribed in subsection E of this section, except as provided in subsection B of this section. Each member who was hired on or after July 1, 2017, throughout the member's period of service from the member's effective date of participation, shall contribute to the fund an amount equal to the amount prescribed in subsection G of this section. During a period when an employee is on industrial leave and the employee elects to continue contributions during the period of industrial leave, the employee shall make the employee's contribution based on the compensation the employee would have received in
the employee's job classification if the employee was in normal employment status. Contributions of members shall be required as a condition of employment and membership in the system and shall be made by payroll deductions. Every employee shall be deemed to consent to such deductions. Payment of an employee's compensation, less such payroll deductions, shall constitute a full and complete discharge and satisfaction of all claims and demands by the employee relating to remuneration for the employee's services rendered during the period covered by the payment, except with respect to the benefits provided under the system. A member may not, under any circumstance, borrow from, take a loan against or remove contributions from the member's account before the termination of membership in the plan or the receipt of a pension.

D. Each employer shall transfer to the board the employer and employee contributions provided for in subsections B, and C AND G of this section within ten working days after each payroll date. Contributions transferred after that date shall include a penalty of ten per cent per annum, compounded annually, for each day the contributions are late, such penalty to be paid by the employer. Delinquent payments due under this subsection, together with interest charges as provided in this subsection, may be recovered by action in a court of competent jurisdiction against an employer liable for the payments or, at the request of the board, may be deducted from any other monies, including excise revenue taxes, payable to such employer by any department or agency of this state.

E. The amount contributed by a member WHO WAS HIRED BEFORE JULY 1, 2017 pursuant to subsection C of this section is:

1. Through June 30, 2011, 7.65 per cent of the member's compensation.
2. For fiscal year 2011-2012, 8.65 per cent of the member's compensation.
3. For fiscal year 2012-2013, 9.55 per cent of the member's compensation.
4. For fiscal year 2013-2014, 10.35 per cent of the member's compensation.
5. For fiscal year 2014-2015, 11.05 per cent of the member's compensation.
6. For fiscal year 2015-2016 and each fiscal year thereafter, 11.65 per cent of the member's compensation or 33.3 per cent of the sum of the member's contribution rate from the preceding fiscal year and the aggregate computed employer contribution rate that is calculated pursuant to subsection B of this section, whichever is lower, except that the member contribution rate shall not be less than 7.65 per cent of the member's compensation and the employer contribution rate shall not be less than the rate prescribed in subsection B of this section.

F. For fiscal year 2011-2012 and each fiscal year thereafter, the amount of the member's contribution that exceeds 7.65 per cent of the member's compensation.
member's compensation shall not be used to reduce the employer's contributions that are calculated pursuant to subsection B of this section.

G. FOR MEMBERS HIRED ON OR AFTER JULY 1, 2017, THE EMPLOYER AND MEMBER CONTRIBUTIONS ARE DETERMINED AS FOLLOWS:

1. AS DETERMINED BY ACTUARIAL VALUATIONS REPORTED TO THE EMPLOYER AND THE LOCAL BOARD BY THE BOARD OF TRUSTEES, EACH EMPLOYER SHALL MAKE CONTRIBUTIONS SUFFICIENT UNDER SUCH ACTUARIAL VALUATIONS TO PAY FIFTY PERCENT OF BOTH THE NORMAL COST PLUS THE ACTUARIALY DETERMINED AMOUNT REQUIRED TO AMORTIZE THE TOTAL UNFUNDED ACCRUED LIABILITY FOR EACH EMPLOYER ATTRIBUTABLE ONLY TO THOSE MEMBERS HIRED ON OR AFTER JULY 1, 2017. FOR EACH YEAR THAT NEW UNFUNDED LIABILITIES ARE ATTRIBUTABLE TO THE EMPLOYER'S OWN MEMBERS HIRED ON OR AFTER JULY 1, 2017, A NEW AMORTIZATION BASE REPRESENTING THE MOST RECENT ANNUAL GAIN OR LOSS, SMOOTHED OVER A PERIOD NOT MORE THAN FIVE YEARS AS DETERMINED BY THE BOARD, SHALL BE CREATED ON A LEVEL-DOLLAR BASIS OVER A CLOSED PERIOD EQUAL TO THE AVERAGE EXPECTED REMAINING SERVICE LIVES OF ALL MEMBERS BUT NOT MORE THAN TEN YEARS, AS DETERMINED BY THE BOARD.

2. THE REMAINING FIFTY PERCENT OF BOTH THE NORMAL COST AND ACTUARILY DETERMINED AMOUNT REQUIRED TO AMORTIZE THE TOTAL UNFUNDED ACCRUED LIABILITY AS DETERMINED PURSUANT TO PARAGRAPH 1 OF THIS SUBSECTION SHALL BE DIVIDED BY THE TOTAL NUMBER OF THE EMPLOYER'S MEMBERS WHO WERE HIRED ON OR AFTER JULY 1, 2017 SUCH THAT EACH MEMBER CONTRIBUTES AN EQUAL PERCENTAGE OF THE MEMBER'S COMPENSATION. MEMBER CONTRIBUTIONS SHALL BEGIN SIMULTANEOUSLY WITH MEMBERSHIP IN THE SYSTEM AND SHALL BE MADE BY PAYROLL DEDUCTION.

H. IN ANY FISCAL YEAR, AN EMPLOYER'S CONTRIBUTION TO THE SYSTEM IN COMBINATION WITH MEMBER CONTRIBUTIONS MAY NOT BE LESS THAN THE ACTUARILY DETERMINED NORMAL COST FOR THAT FISCAL YEAR. THE BOARD MAY NOT SUSPEND CONTRIBUTIONS TO THE SYSTEM UNLESS BOTH OF THE FOLLOWING APPLY:

1. THE RETIREMENT SYSTEM ACTUARY, BASED ON THE ANNUAL VALUATION, DETERMINES THAT CONTINUING TO ACCRUE EXCESS EARNINGS COULD RESULT IN DISQUALIFICATION OF THE SYSTEM'S TAX-EXEMPT STATUS UNDER THE PROVISIONS OF THE UNITED STATES INTERNAL REVENUE CODE.

2. THE BOARD DETERMINES THAT THE RECEIPT OF ANY ADDITIONAL CONTRIBUTIONS REQUIRED UNDER THIS SECTION WOULD CONFLICT WITH ITS FIDUCIARY RESPONSIBILITY.

I. IF A MEMBER'S EMPLOYMENT IS TERMINATED WITH AN EMPLOYER BY EITHER PARTY, THE TOTAL LIABILITY UNDER THE SYSTEM ASSOCIATED WITH THE MEMBER'S SERVICE WITH THE EMPLOYER REMAINS WITH THE EMPLOYER.

Sec. 6. Section 38-843.04, Arizona Revised Statutes, is amended to read:

38-843.04. Compensation limitation; adjustments; definition

A. The annual compensation of each member taken into account for purposes of the system shall not exceed the following:

2. EXCEPT FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017, beginning January 1, 2002, two hundred thousand dollars. THE BOARD SHALL ADJUST THE TWO HUNDRED THOUSAND DOLLAR ANNUAL COMPENSATION LIMIT UNDER THIS PARAGRAPH AT THE SAME TIME AND IN THE SAME MANNER AS ADJUSTED BY THE UNITED STATES SECRETARY OF THE TREASURY UNDER SECTION 401(a)(17)(B) OF THE INTERNAL REVENUE CODE. THE ADJUSTMENT UNDER THIS PARAGRAPH FOR A CALENDAR YEAR APPLIES TO ANNUAL COMPENSATION FOR THE PLAN YEAR THAT BEGINS WITH OR WITHIN THE CALENDAR YEAR.

3. FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017, ONE HUNDRED TEN THOUSAND DOLLARS. THE BOARD SHALL ADJUST THE ONE HUNDRED TEN THOUSAND DOLLAR ANNUAL COMPENSATION LIMIT UNDER THIS PARAGRAPH AS PRESCRIBED IN SUBSECTION C OF THIS SECTION. NOTWITHSTANDING THE ADJUSTMENTS MADE UNDER SUBSECTION C OF THIS SECTION, THE LIMIT UNDER THIS PARAGRAPH, AS ADJUSTED BY THE BOARD, MAY NOT EXCEED THE MAXIMUM COMPENSATION LIMIT OF SECTION 401(a)(17) OF THE INTERNAL REVENUE CODE, AS ADJUSTED BY THE UNITED STATES SECRETARY OF THE TREASURY.

B. If compensation under the system is determined on a period of time that contains fewer than twelve calendar months, the compensation limit for that period of time is equal to the dollar limit for the calendar year during which the period of time begins, multiplied by the fraction in which the numerator is the number of full months in that period of time and the denominator is twelve.

C. The board shall adjust the annual compensation limits under this section at the same time and in the same manner as adjusted by the United States secretary of the treasury under section 401(a)(17)(B) of the internal revenue code. The adjustment under this subsection for a calendar year applies to annual compensation for the plan year that begins with or within the calendar year.

C. BEGINNING IN FISCAL YEAR 2020-2021, AND EVERY THIRD FISCAL YEAR THEREAFTER, THE BOARD SHALL ADJUST THE ANNUAL COMPENSATION LIMIT SPECIFIED IN SUBSECTION A, PARAGRAPH 3 OF THIS SECTION BY THE AVERAGE CHANGE IN THE PUBLIC SAFETY WAGE INDEX AS DETERMINED IN THIS SUBSECTION. THE BOARD SHALL ANNUALLY PUBLISH THE PUBLIC SAFETY WAGE INDEX IN JANUARY. TO DETERMINE THE PUBLIC SAFETY WAGE INDEX:

1. EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX SHALL PROVIDE THE BOARD PAY SCALES FOR THE MONTH OF JULY FOR THE ENFORCEMENT CLASSIFICATIONS OF PUBLIC SAFETY OFFICERS ANNUALLY IN JULY.

2. THE BOARD SHALL DETERMINE THE WEIGHTED AVERAGE OF THE CHANGE IN THE TOP OF THE PAY SCALE FOR PUBLIC SAFETY OFFICERS OF THE EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX. THE AVERAGE CHANGE SHALL BE WEIGHTED BY MEASURING EACH EMPLOYER’S TOTAL NUMBER OF MEMBERS DIVIDED BY THE TOTAL NUMBER OF MEMBERS OF ALL EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX.

D. THE BOARD SHALL ESTABLISH A PUBLIC SAFETY WAGE INDEX THAT IS COMPOSED OF A GROUP OF EMPLOYERS THAT REPRESENT GEOGRAPHIC DIVERSITY ACROSS THIS STATE AND THAT REPRESENT:
1. SEVEN LARGE EMPLOYERS, EACH OF WHICH HAS ONE THOUSAND OR MORE TOTAL SYSTEM MEMBERS, COMPOSED OF ONE STATE LAW ENFORCEMENT AGENCY, ONE COUNTY LAW ENFORCEMENT AGENCY, THREE MUNICIPAL LAW ENFORCEMENT AGENCIES AND TWO MUNICIPAL FIRE AGENCIES.

2. NINE MIDSIZED EMPLOYERS, EACH OF WHICH HAS MORE THAN TWO HUNDRED BUT LESS THAN ONE THOUSAND TOTAL SYSTEM MEMBERS, COMPOSED OF ONE STATE LAW ENFORCEMENT AGENCY, TWO COUNTY LAW ENFORCEMENT AGENCIES, FOUR MUNICIPAL LAW ENFORCEMENT AGENCIES, ONE MUNICIPAL FIRE AGENCY AND ONE FIRE DISTRICT.

3. TEN SMALL EMPLOYERS, EACH OF WHICH HAS TWO HUNDRED OR LESS TOTAL SYSTEM MEMBERS, COMPOSED OF THREE MUNICIPAL LAW ENFORCEMENT AGENCIES, FOUR MUNICIPAL FIRE AGENCIES AND THREE FIRE DISTRICTS.

E. THE BOARD MAY NOT CHANGE THE EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX MORE FREQUENTLY THAN EVERY TEN YEARS, UNLESS REQUIRED TO MAINTAIN THE COMPOSITION OF EMPLOYERS AS PRESCRIBED IN SUBSECTION D OF THIS SECTION.

F. FOR THE PURPOSES OF THIS SECTION, "PUBLIC SAFETY OFFICERS" MEANS THE CLASSIFICATION OF POLICE OFFICERS, SHERIFF'S DEPUTIES, FIREFIGHTERS OR WILDLIFE MANAGERS OR THEIR EQUIVALENT ENFORCEMENT CLASSIFICATIONS.

Sec. 7. Section 38-844.05, Arizona Revised Statutes, is amended to read:

38-844.05. Deferred retirement option benefits and participation accounts

A. A deferred retirement option plan participation account is an account established within the system on behalf of each deferred retirement option plan participant. All benefits accrued pursuant to this article shall be accounted for in the deferred retirement option plan participation account. A deferred retirement option plan participant does not have a claim on the assets of the system with respect to the member's deferred retirement option plan participation account and assets shall not be set aside for any deferred retirement option plan participant that are separate from all other system assets.

B. All amounts credited to a member's deferred retirement option plan participation account are fully vested.

C. A member's deferred retirement option plan participation account shall be credited with the following:

1. An amount, credited monthly, that is computed in the same manner as a normal retirement benefit using the factors of credited service and average monthly benefit compensation in effect on the date of deferred retirement option plan participation.

2. An amount, credited monthly, that represents interest on the amount credited pursuant to paragraph 1 of this subsection at a rate equal to the assumed rate of return determined by the board, except that for a member who has less than twenty years of credited service on January 1, 2012 and who elects to participate in the deferred retirement option plan on or after January 1, 2012, the amount credited monthly is the amount that represents
interest at a rate equal to the average annual return of the system over the
period of years established by the board for use in the calculation of the
actuarial value of assets for the previous year, but not to exceed the
system's assumed investment rate of return but at least two percent.

3. If applicable, employee contributions made pursuant to section
38-844.06, subsection B.

D. The participant is not entitled to receive any amount prescribed by
section 38-856, 38-856.02 38-856.05 or 38-857 during the deferred retirement
option plan participation period.

Sec. 8. Section 38-845, Arizona Revised Statutes, is amended to read:

38-845. Amount of retirement benefit
A. A member who meets the requirements for a normal pension, who
becomes a member of the system before January 1, 2012 and who has twenty
years of credited service shall receive a monthly amount that equals fifty
percent of the member's average monthly benefit compensation. If the member
retires with other than twenty years of credited service, the foregoing
amount shall be:

1. Reduced by four percent for each year of credited service under
twenty years, with pro rata reduction for any fractional year.

2. Increased by a monthly amount equal to two percent of the member's
average monthly benefit compensation multiplied by the number of the member's
years of credited service in excess of twenty years, with pro rata increase
for any fractional year, except that if a member retires with twenty-five or
more years of credited service the amount shall be increased by a monthly
amount equal to two and one-half percent of the member's average monthly
benefit compensation multiplied by the number of the member's years of
credited service in excess of twenty years, with pro rata increase for any
fractional year. Notwithstanding this subsection, the maximum amount payable
as a normal pension shall be eighty percent of the average monthly benefit
compensation.

B. A member who meets the requirements for an accidental disability
pension shall receive a monthly amount, which shall be computed in the same
manner as a normal pension, using the member's average monthly benefit
compensation before termination of employment and the member's actual
credited service or twenty years of credited service, whichever is greater.

C. A member who meets the requirements for an ordinary disability
pension shall receive a monthly amount that is equal to a fraction times the
member’s normal pension that is computed according to subsection A, G OR H
of this section if the member had twenty years of credited service. The
fraction is the result obtained by dividing the member's actual years of
credited service, not to exceed twenty years of credited service, by twenty.

D. A member who meets the requirements for a temporary disability
pension shall receive a monthly amount that is equal to one-twelfth of fifty
percent of the member's annual compensation received immediately prior to the
date on which the member's disability was incurred.
E. A member who meets the requirements for a catastrophic disability pension is entitled to receive a monthly amount computed as follows:
   1. For the first sixty months, ninety percent of the member's average monthly benefit compensation before termination of employment.
   2. After sixty months, sixty-two and one-half percent of the member's average monthly benefit compensation before termination of employment or computed in the same manner as a normal pension using the member's average monthly benefit compensation before termination of employment and the member's actual credited service, whichever is greater.

F. A member who was employed before September 15, 1989 by an employer participating in the system and who retires on or after November 1, 2001 is entitled to receive a tax equity benefit allowance consisting of a permanent increase of two percent of the member's base benefit retroactive to the day of retirement.

G. A member who meets the requirements for a normal pension, who becomes a member of the system on or after January 1, 2012 AND BEFORE JULY 1, 2017 and who has twenty-five years of credited service shall receive a monthly amount that equals sixty-two and one-half percent of the member's average monthly benefit compensation. If the member retires with other than twenty-five years of credited service, the foregoing amount shall be:
   1. Reduced by four percent for each year of credited service under twenty-five years, with pro rata reduction for any fractional year.
   2. Increased by a monthly amount equal to two and one-half percent of the member's average monthly benefit compensation multiplied by the number of the member's years of credited service in excess of twenty-five years, with pro rata increase for any fractional year. Notwithstanding this subsection, the maximum amount payable as a normal pension shall be eighty percent of the average monthly benefit compensation.

H. A MEMBER WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER JULY 1, 2017 AND WHO RETIRES ON OR AFTER THE MEMBER'S NORMAL RETIREMENT DATE SHALL RECEIVE A MONTHLY AMOUNT EQUAL TO THE MEMBER'S AVERAGE MONTHLY BENEFIT COMPENSATION-multiplied by the number of whole and fractional years of credited service multiplied by the following:
   1. 1.50 PERCENT IF THE MEMBER HAS AT LEAST FIFTEEN YEARS OF CREDITED SERVICE BUT LESS THAN SEVENTEEN YEARS OF CREDITED SERVICE.
   2. 1.75 PERCENT IF THE MEMBER HAS AT LEAST SEVENTEEN YEARS OF CREDITED SERVICE BUT LESS THAN NINETEEN YEARS OF CREDITED SERVICE.
   3. 2.00 PERCENT IF THE MEMBER HAS AT LEAST NINETEEN YEARS OF CREDITED SERVICE BUT LESS THAN TWENTY-TWO YEARS OF CREDITED SERVICE.
   4. 2.25 PERCENT IF THE MEMBER HAS AT LEAST TWENTY-TWO YEARS OF CREDITED SERVICE BUT LESS THAN TWENTY-FIVE YEARS OF CREDITED SERVICE.
   5. 2.50 PERCENT IF THE MEMBER HAS AT LEAST TWENTY-FIVE YEARS OF CREDITED SERVICE.
I. NOTWITHSTANDING SUBSECTION H OF THIS SECTION, THE MAXIMUM AMOUNT PAYABLE AS A NORMAL PENSION IS EIGHTY PERCENT OF THE AVERAGE MONTHLY BENEFIT COMPENSATION.

Sec. 9. Title 38, chapter 5, article 4, Arizona Revised Statutes, is amended by adding section 38-845.03, to read:

38-845.03. Early retirement
MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017 AND WHO HAVE EARNED AT LEAST FIFTEEN YEARS OF CREDITED SERVICE MAY RETIRE AT FIFTY-TWO AND ONE-HALF YEARS OF AGE AND WILL RECEIVE AN ACTUARILY EQUIVALENT RETIREMENT BENEFIT TO THE BENEFIT AMOUNT PRESCRIBED IN SECTION 38-845, SUBSECTION H.

Sec. 10. Section 38-846.01, Arizona Revised Statutes, is amended to read:

38-846.01. Deferred annuity; exception
A. If any member who has at least ten years of credited service terminates employment for reasons other than retirement or disability, the member may elect to receive a deferred annuity, except that if the annuitant withdraws all or part of the annuitant's accumulated contributions in the system all rights in and to a deferred annuity shall be forfeited by the annuitant. A deferred annuity is a lifetime monthly payment actuarially equivalent to the annuitant's accumulated contributions in the system plus an equal amount paid by the employer and shall commence on application on or after the sixty-second birthday of the annuitant. The annuity is not a retirement benefit and annuitants are not entitled to receive any amount prescribed by section 38-845, subsection F or section 38-846, 38-856, 38-856.02 or 38-857.

B. This section does not apply to a member who becomes a member of the system on or after January 1, 2012. SUCH FOR A MEMBER WHO IS HIRED ON OR AFTER JANUARY 1, 2012 AND BEFORE JULY 1, 2017, a person MEMBER who attains a normal retirement date is eligible for retirement and a retirement benefit even if the member terminates employment with an employer before the age requirement for normal retirement if the member attains the service requirement for normal retirement. FOR A MEMBER WHO IS HIRED ON OR AFTER JULY 1, 2017, A MEMBER WHO ATTAINS A NORMAL RETIREMENT DATE IS ELIGIBLE FOR RETIREMENT AND A RETIREMENT BENEFIT EVEN IF THE MEMBER TERMINATES EMPLOYMENT WITH AN EMPLOYER BEFORE THE AGE REQUIREMENT FOR NORMAL RETIREMENT IF THE MEMBER ATTAINS THE CREDITED SERVICE REQUIREMENT FOR NORMAL RETIREMENT. ONCE A MEMBER DESCRIBED IN THIS SUBSECTION REACHES THE NORMAL RETIREMENT AGE, THE MEMBER MAY RECEIVE PAYMENTS MADE UNDER SECTION 38-845.

Sec. 11. Section 38-848, Arizona Revised Statutes, is amended to read:

38-848. Board of trustees; powers and duties; independent trust fund; administrator; agents and employees; advisory committee
A. BEGINNING JANUARY 1, 2017, the board of trustees shall consist of SEVEN NINE members and shall have the rights, powers and duties that are set forth in this section. The term of office of members shall be five years to

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expire on the third Monday in January of the appropriate year. THE BOARD
shall select a chairperson from among its members each calendar year.
Members are eligible to receive compensation in an amount of fifty dollars a
day, but not to exceed one thousand dollars in any one fiscal year, and are
eligible for reimbursement of expenses pursuant to chapter 4, article 2 of
this title. Beginning January 1, 2017, the board consists of the following
members appointed by the governor pursuant to section 38-211 as follows:

1. Two elected members from a local board to represent the employees.
2. One member to represent this state as an employer of public safety
personnel. This member shall have the qualifications prescribed in
subsection T of this section.
3. One member to represent the cities as employers of public safety
personnel.
4. An elected county or state official or a judge of the superior
court, court of appeals or supreme court.
5. Two public members. These members shall have the qualifications
prescribed in subsection T of this section.

1. Two members representing law enforcement, one of whom is appointed
by the president of the Senate and one of whom is appointed by the governor.
A statewide association representing law enforcement in this state shall
forward nominations to the appointing elected officials, providing at least
three nominees for each position. At least one of the members appointed
under this paragraph shall be an elected local board member.

2. Two members representing firefighters, one of whom is appointed by
the speaker of the House of Representatives and one of whom is appointed by
the governor. A statewide association representing firefighters in this
state shall forward nominations to the appointing elected officials,
providing at least three nominees for each position. At least one of the
members appointed under this paragraph shall be an elected local board
member.

3. Three members representing cities and towns in this state, one of
whom is appointed by the president of the Senate, one of whom is appointed by
the speaker of the House of Representatives and one of whom is appointed by
the governor. An association representing cities and towns in this state
shall forward nominations to the appointing elected officials, providing at
least three nominees for each position. These nominees shall represent
taxpayers or employers and may not be members of the system.

4. One member who represents counties in this state and who is
appointed by the governor. An association representing county supervisors in
this state shall forward nominations to the governor, providing at least
three nominees for the position. These nominees shall represent taxpayers or
employers and may not be members of the system.

5. One member who is appointed by the governor from a list of three
nominees forwarded by the board. The board shall select the nominees to
FORWARD TO THE GOVERNOR FROM A LIST OF AT LEAST FIVE NOMINEES RECEIVED FROM THE ADVISORY COMMITTEE.

B. EACH APPOINTMENT MADE PURSUANT TO SUBSECTION A OF THIS SECTION SHALL BE CHOSEN FROM THE LIST OF NOMINEES PROVIDED TO THE APPOINTING ELECTED OFFICIAL. A BOARD MEMBER MAY BE REAPPOINTED. NOTWITHSTANDING SECTION 38-295, A BOARD MEMBER MAY BE REMOVED FROM OFFICE ONLY FOR CAUSE BY THE APPOINTING POWER OR BECAUSE THE BOARD MEMBER HAS VACATED THE MEMBER'S SEAT ON THE BOARD. A BOARD MEMBER WHO IS REMOVED FOR CAUSE SHALL BE PROVIDED WRITTEN NOTICE AND AN OPPORTUNITY FOR A RESPONSE. THE APPOINTING POWER MAY REMOVE A BOARD MEMBER BASED ON WRITTEN FINDINGS THAT SPECIFY THE REASON FOR REMOVAL. ANY VACANCY THAT OCCURS OTHER THAN BY EXPIRATION OF A TERM SHALL BE FILLED FOR THE BALANCE OF THE TERM. ALL VACANCIES SHALL BE FILLED IN THE SAME MANNER AS THE INITIAL APPOINTMENT. A BOARD MEMBER VACATES THE OFFICE IF THE MEMBER EITHER:

1. IS ABSENT WITHOUT EXCUSE FROM THREE CONSECUTIVE REGULAR MEETINGS OF THE BOARD.
2. RESIGNS, DIES OR BECOMES UNABLE TO PERFORM BOARD MEMBER DUTIES.

C. THE MEMBERS OF THE BOARD WHO ARE APPOINTED PURSUANT TO SUBSECTION A OF THIS SECTION AND WHO ARE NOT MEMBERS OF THE SYSTEM SHALL BE INDEPENDENT, QUALIFIED PROFESSIONALS WHO ARE RESPONSIBLE FOR THE PERFORMANCE OF FIDUCIARY DUTIES AND OTHER RESPONSIBILITIES REQUIRED TO PRESERVE AND PROTECT THE FUND AND SHALL HAVE AT LEAST TEN YEARS' SUBSTANTIAL EXPERIENCE AS ANY ONE OR A COMBINATION OF THE FOLLOWING:

1. A PORTFOLIO MANAGER ACTING IN A FIDUCIARY CAPACITY.
2. A SECURITIES ANALYST.
3. A SENIOR EXECUTIVE OR PRINCIPAL OF A TRUST INSTITUTION, INVESTMENT ORGANIZATION OR ENDOWMENT FUND ACTING EITHER IN A MANAGEMENT OR AN INVESTMENT-RELATED CAPACITY.
4. A CHARTERED FINANCIAL ANALYST IN GOOD STANDING AS DETERMINED BY THE CHARTERED FINANCIAL ANALYST INSTITUTE.
5. A CURRENT OR FORMER PROFESSOR OR INSTRUCTOR AT THE COLLEGE OR UNIVERSITY LEVEL IN THE FIELD OF ECONOMICS, FINANCE, ACTUARIAL SCIENCE, ACCOUNTING OR PENSION-RELATED SUBJECTS.
6. AN ECONOMIST.
7. ANY OTHER SENIOR EXECUTIVE ENGAGED IN THE FIELD OF PUBLIC OR PRIVATE FINANCES OR WITH EXPERIENCE WITH PUBLIC PENSION SYSTEMS.
8. A SENIOR EXECUTIVE IN INSURANCE, BANKING, UNDERWRITING, AUDITING, HUMAN RESOURCES OR RISK MANAGEMENT.

D. All monies in the fund shall be deposited and held in a public safety personnel retirement system depository. Monies in the fund shall be disbursed from the depository separate and apart from all monies or funds of this state and the agencies, instrumentalities and subdivisions of this state, except that the board may commingle the assets of the fund and the assets of all other plans entrusted to its management in one or more group trusts, subject to the crediting of receipts and earnings and charging of
payments to the appropriate employer, system or plan. The monies shall be
secured by the depository in which they are deposited and held to the same
extent and in the same manner as required by the general depository law of
this state. For purposes of making the decision to invest in securities
owned by the fund or any plan or trust administered by the board, the fund
and assets of the plans and the plans' trusts are subject to the sole
management of the board for the purpose of this article except that, on the
board's election to invest in a particular security or make a particular
investment, the assets comprising the security or investment may be chosen
and managed by third parties approved by the board. The board may invest in
portfolios of securities chosen and managed by a third party. The board's
decision to invest in securities such as mutual funds, commingled investment
funds, exchange traded funds, private equity or venture capital limited
partnerships, real estate limited partnerships or limited liability companies
and real estate investment trusts whose assets are chosen and managed by
third parties does not constitute an improper delegation of the board's
investment authority.

C. E. All contributions under this system and other retirement plans
that the board administers shall be forwarded to the board and shall be held,
invested and reinvested by the board as provided in this article. All
property and monies of the fund and other retirement plans that the board
administers, including income from investments and from all other sources,
shall be retained for the exclusive benefit of members, as provided in the
system and other retirement plans that the board administers, and shall be
used to pay benefits to members or their beneficiaries or to pay expenses of
operation and administration of the system and fund and other retirement
plans that the board administers.

D. F. The board shall have the full power in its sole discretion to
invest and reinvest, alter and change the monies accumulated under the system
and other retirement plans and trusts that the board administers as provided
in this article. In addition to its power to make investments managed by
others, the board may delegate the authority the board deems necessary and
prudent to investment management pursuant to section 38-848.03, as well as to
the administrator, employed by the board pursuant to subsection K M,
paragraph 6 of this section, and any assistant administrators to invest the
monies of the system and other retirement plans and trusts that the board
administers if the administrator, investment management and any assistant
administrators follow the investment policies that are adopted by the board.
The board may commingle securities and monies of the fund, the elected
officials' retirement plan, the corrections officer retirement plan and other
plans or monies entrusted to its care, subject to the crediting of receipts
and earnings and charging of payments to the account of the appropriate
employer, system or plan. In making every investment, the board shall
exercise the judgment and care under the circumstances then prevailing that
persons of ordinary prudence, discretion and intelligence exercise in the
management of their own affairs, not in regard to speculation but in regard
to the permanent disposition of their funds, considering the probable income
from their funds as well as the probable safety of their capital, provided:

1. That not more than eighty percent of the combined assets
of the system or other plans that the board manages shall be invested at any
given time in corporate stocks, based on cost value of such stocks
irrespective of capital appreciation.

2. That no more than five percent of the combined assets of
the system or other plans that the board manages shall be invested in
corporate stock issued by any one corporation, other than corporate stock
issued by corporations chartered by the United States government or corporate
stock issued by a bank or insurance company.

3. That not more than five percent of the voting stock of any
one corporation shall be owned by the system and other plans that the board
administers, except that this limitation does not apply to membership
interests in limited liability companies.

4. That corporate stocks and exchange traded funds eligible for direct
purchase shall be restricted to stocks and exchange traded funds that, except
for bank stocks, insurance stocks, stocks acquired for coinvestment in
connection with the system's or the plans' or trusts' commingled investments
and interests in limited liability companies and mutual funds, are either:

(a) Listed or approved on issuance for listing on an exchange
registered under the securities exchange act of 1934, as amended (15 United
States Code sections 78a through 78ll).

(b) Designated or approved on notice of issuance for designation on
the national market system of a national securities association registered
under the securities exchange act of 1934, as amended (15 United States Code
sections 78a through 78ll).

(c) Listed or approved on issuance for listing on an exchange
registered under the laws of this state or any other state.

(d) Listed or approved on issuance for listing on an exchange of a
foreign country with which the United States is maintaining diplomatic
relations at the time of purchase, except that no more than twenty percent of the combined assets of the system and other plans that the board
manages shall be invested in foreign securities, based on the cost value of
the stocks irrespective of capital appreciation.

(e) An exchange traded fund that is recommended by the chief
investment officer of the system, that is registered under the investment
company act of 1940 (15 United States Code sections 80a-1 through 80a-64) and
that is both traded on a public exchange and based on a publicly recognized
index.

E. G. Notwithstanding any other law, the board shall not be required
to invest in any type of investment that is dictated or required by any
entity of the federal government and that is intended to fund economic
development projects, public works or social programs, but may consider such
The board, on behalf of the system and all other plans or trusts, may invest in, lend monies to, or guarantee the repayment of monies by a limited liability company, limited partnership, joint venture, partnership, limited liability partnership or trust in which the system and plans or trusts have a financial interest, whether the entity is closely held or publicly traded and that, in turn, may be engaged in any lawful activity, including venture capital, private equity, the ownership, development, management, improvement or operation of real property and any improvements or businesses on real property or the lending of monies.

Conference call meetings of the board that are held for investment purposes only are not subject to chapter 3, article 3.1 of this title, except that the board shall maintain minutes of these conference call meetings and make them available for public inspection within twenty-four hours after the meeting. The board shall review the minutes of each conference call meeting and shall ratify all legal actions taken during each conference call meeting at the next scheduled meeting of the board.

The board shall not be held liable for the exercise of more than ordinary care and prudence in the selection of investments and performance of its duties under the system and shall not be limited to so-called "legal investments for trustees", but all monies of the system and other plans that the board administers shall be invested subject to all of the conditions, limitations and restrictions imposed by law.

Except as provided in subsection D-F of this section, the board may:

1. Invest and reinvest the principal and income of all assets that the board manages without distinction between principal and income.
2. Sell, exchange, convey, transfer or otherwise dispose of any investments made on behalf of the system or other plans the board administers in the name of the system or plans by private contract or at public auction.
3. Also:
   a. Vote on any stocks, bonds or other securities.
   b. Give general or special proxies or powers of attorney with or without power of substitution.
   c. Exercise any conversion privileges, subscription rights or other options and make any payments incidental to the exercise of the conversion privileges, subscription rights or other options.
   d. Consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities, delegate discretionary powers and pay any assessments or charges in connection therewith.
   e. Generally exercise any of the powers of an owner with respect to stocks, bonds, securities or other investments held in or owned by the system or other plans whose assets the board administers.
4. Make, execute, acknowledge and deliver any other instruments that may be necessary or appropriate to carry out the powers granted in this section.

5. Register any investment held by the system or other plans whose assets the board administers in the name of the system or plan or in the name of a nominee or trust.

6. At the expense of the system or other plans that the board administers, enter into an agreement with any bank or banks for the safekeeping and handling of securities and other investments coming into the possession of the board. The agreement shall be entered into under terms and conditions that secure the proper safeguarding, inventory, withdrawal and handling of the securities and other investments. No access to and no deposit or withdrawal of the securities from any place of deposit selected by the board shall be permitted or made except as the terms of the agreement may provide.

7. Appear before local boards and the courts of this state and political subdivisions of this state through counsel or appointed representative to protect the fund or the assets of other plans that the board administers. The board is not responsible for the actions or omissions of the local boards under this system but may seek review or rehearing of actions or omissions of local boards. The board does not have a duty to review actions of the local boards but may do so in its discretion in order to protect the fund. No limitations period precludes the board or administrator from contesting, or requires the board or administrator to implement or comply with, a local board decision that violates the internal revenue code or that threatens to impair the tax qualified status of the system or any plan administered by the board or administrator.

8. Empower the fund administrator to take actions on behalf of the board that are necessary for the protection and administration of the fund or the assets of other plans that the board administers pursuant to the guidelines of the board.

9. Do all acts, whether or not expressly authorized, that may be deemed necessary or proper for the protection of the investments held in the fund or owned by other plans or trusts that the board administers.

10. Settle threatened or actual litigation against any system or plan that the board administers.

11. Investment expenses and operation and administrative expenses of the board shall be accounted for separately and allocated against investment income.

12. The board, as soon as possible within a period of six months following the close of any fiscal year, shall transmit to the governor and the legislature a comprehensive annual financial report on the operation of the system and other plans that the board administers containing, among other things:
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1. A balance sheet.
2. A statement of income and expenditures for the year.
3. A report on an actuarial valuation of its assets and liabilities.
4. A list of investments owned.
5. The total rate of return, yield on cost, and percent of cost to market value of the fund and the assets of other plans that the board administers.
6. Any other statistical and financial data that may be necessary for the proper understanding of the financial condition of the system and other plans that the board administers and the results of their operations. A synopsis of the annual report shall be published for the information of members of the system, the elected officials' retirement plan or the corrections officer retirement plan.
7. An analysis of the long-term level percent of employer contributions and compensation structure and whether the funding methodology is sufficient to pay one hundred percent of the unfunded accrued liability under the elected officials' retirement plan.
8. An estimate of the aggregate employer contribution rate for the public safety personnel retirement system for the next ten fiscal years and an estimate of the aggregate employer contribution rate for the corrections officer retirement plan for the next ten fiscal years.
9. An estimate of the employer contribution rates for the next ten fiscal years for each of the following employers within the public safety personnel retirement system:
   (a) Department of liquor licenses and control.
   (b) Department of public safety.
   (c) Northern Arizona university.
   (d) University of Arizona.
   (e) Arizona state university.
   (f) Arizona game and fish department.
   (g) Department of law.
   (h) Department of emergency and military affairs.
   (i) Arizona state parks board.
10. An estimate of the employer contribution rates for the next ten fiscal years for each of the following employers within the corrections officer retirement plan:
   (a) State department of corrections.
   (b) Department of public safety.
   (c) The judiciary.
   (d) Department of juvenile corrections.

K. M. The board shall:
1. Maintain the accounts of the system and other plans that the board administers and issue statements to each employer annually and to each member who may request it.
2. Report the results of the actuarial valuations to the local boards and employers.

3. Contract on a fee basis with an independent investment counsel to advise the board in the investment management of the fund and assets of other plans that the board administers and with an independent auditing firm to audit the board's accounting.

4. Permit the auditor general to make an annual audit and the results shall be transmitted to the governor and the legislature.

5. Contract on a fee basis with an actuary who shall make actuarial valuations of the system and other plans that the board administers, be the technical adviser of the board on matters regarding the operation of the funds created by the provisions of the system, the elected officials' retirement plan, the corrections officer retirement plan and the firefighter, peace officer and corrections officer cancer insurance policy program and perform other duties required in connection therewith. The actuary must be a member of a nationally recognized association or society of actuaries.

6. Employ, as administrator, a person, state department or other body to serve at the pleasure of the board.

7. Establish procedures and guidelines for contracts with actuaries, auditors, investment counsel and legal counsel and for safeguarding of securities.

L. N. The administrator, under the direction of the board, shall:

1. Administer this article.

2. Be responsible for the recruitment, hiring and day-to-day management of employees.

3. Invest the funds of the system and other plans that the board administers as the board deems necessary and prudent as provided in subsections D–F and H–J of this section and subject to the investment policies and fund objectives adopted by the board.

4. Establish and maintain an adequate system of accounts and records for the system and other plans that the board administers, which shall be integrated with the accounts, records and procedures of the employers so that the system and other plans that the board administers operates most effectively and at minimum expense and that duplication of records and accounts is avoided.

5. In accordance with the board's governance policy and procedures and the budget adopted by the board, hire such employees and services the administrator deems necessary and prescribe their duties, including the hiring of one or more assistant administrators to manage the system's operations, investments and legal affairs.

6. Be responsible for income, the collection of the income and the accuracy of all expenditures.

7. Recommend to the board annual contracts for the system's actuary, auditor, investment counsel, legal counsel and safeguarding of securities.
8. Perform additional duties and powers prescribed by the board and delegated to the administrator.

M. O. The system is an independent trust fund and the board is not subject to title 41, chapter 6. Contracts for goods and services approved by the board are not subject to title 41, chapter 23. As an independent trust fund whose assets are separate and apart from all other funds of this state, the system and the board are not subject to the restrictions prescribed in section 35-154 or article IX, sections 5 and 8, Constitution of Arizona. Loans, guarantees, investment management agreements and investment contracts that are entered into by the board are contracts memorializing obligations or interests in securities that the board has concluded, after thorough due diligence, do not involve investments in Sudan or Iran or otherwise provide support to terrorists or in any way facilitate illegal immigration into the United States. These contracts do not involve the procurement, supply or provision of goods, equipment, labor, materials or services that would require the warrants required by section 41-4401.

N. P. The board, the administrator, the assistant administrators and all persons employed by them are subject to title 41, chapter 4, article 4. The administrator, assistant administrators and other employees of the board are entitled to receive compensation pursuant to section 38-611.

O. Q. In consultation with the director of the department of administration, the board may enter into employment agreements and establish the terms of those agreements with persons holding any of the following system positions:

1. Administrator.
2. Deputy or assistant administrator.
3. Chief investment officer.
4. Deputy chief investment officer.
5. Fiduciary or investment counsel.

P. R. The attorney general or an attorney approved by the attorney general and paid by the fund shall be the attorney for the board and shall represent the board in any legal proceeding or forum that the board deems appropriate. The board, administrator, assistant administrators and employees of the board are not personally liable for any acts done in their official capacity in good faith reliance on the written opinions of the board's attorney.

Q. S. At least once in each five-year period after the effective date, the actuary shall make an actuarial investigation into the mortality, service and compensation experience of the members and beneficiaries of the system and other plans that the board administers and shall make a special valuation of the assets and liabilities of the monies of the system and plans. Taking into account the results of the investigation and special valuation, the board shall adopt for the system and other plans that the board administers those mortality, service and other tables deemed necessary.
R.  T. On the basis of the tables the board adopts, the actuary shall make a valuation of the assets and liabilities of the funds of the system and other plans that the board administers not less frequently than every year. By November 1 of each year the board shall provide a preliminary report and by December 15 of each year provide a final report to the governor, the speaker of the house of representatives and the president of the senate on the contribution rate for the ensuing fiscal year.

S.  U. Neither the board nor any member or employee of the board shall directly or indirectly, for himself or as an agent, in any manner use the monies or deposits of the fund except to make current and necessary payments, nor shall the board or any member or employee become an endorser or surety or in any manner an obligor for monies loaned by or borrowed from the fund or the assets of any other plans that the board administers.

T. The members of the board who are appointed pursuant to subsection A, paragraphs 2 and 5 of this section shall have at least ten years' substantial experience as any one or a combination of the following:
   1. A portfolio manager acting in a fiduciary capacity.
   2. A securities analyst.
   3. An employee or principal of a trust institution, investment organization or endowment fund acting either in a management or an investment related capacity.
   4. A chartered financial analyst in good standing as determined by the association for investment management and research.
   5. A professor at the university level teaching economics or investment related subjects.
   6. An economist.
   7. Any other professional engaged in the field of public or private finances.

U. V. Financial or commercial information that is provided to the board, employees of the board and attorneys of the board in connection with investments in which the board has invested or investments the board has considered for investment is confidential, proprietary and not a public record if the information is information that would customarily not be released to the public by the person or entity from whom the information was obtained.

W. A PERSON WHO IS A DEALER AS DEFINED IN SECTION 44-1801 AND WHO IS INVOLVED IN SECURITIES OR INVESTMENTS RELATED TO THE BOARD'S INVESTMENTS IS NOT ELIGIBLE TO SERVE ON THE BOARD.

SHALL SELECT A CHAIRPERSON FROM AMONG ITS MEMBERS EACH CALENDAR YEAR. THE
COMMITTEE SHALL CONSIST OF THE FOLLOWING TEN MEMBERS:
1. A MEMBER WHO IS A LAW ENFORCEMENT OFFICER.
2. A MEMBER WHO IS A FIREFIGHTER.
3. A MEMBER OF THE ELECTED OFFICIALS' RETIREMENT PLAN.
4. A MEMBER OF THE CORRECTIONS OFFICER RETIREMENT PLAN.
5. A RETIREE FROM THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM.
6. A REPRESENTATIVE FROM A CITY OR TOWN IN THIS STATE.
7. A REPRESENTATIVE FROM A COUNTY IN THIS STATE.
8. A REPRESENTATIVE FROM A FIRE DISTRICT IN THIS STATE.
9. A REPRESENTATIVE FROM A STATE EMPLOYER.
10. A REPRESENTATIVE FROM A TRIBAL GOVERNMENT LOCATED IN THIS STATE.

Sec. 12. Title 38, chapter 5, article 4, Arizona Revised Statutes, is
amended by adding section 38-848.04, to read:

38-848.04. Board fiduciary obligations and duties; enforcement;
definitions
A. THE BOARD AND ANY OTHER FIDUCIARY OF THE SYSTEM SHALL DISCHARGE
THEIR DUTIES:
1. SOLELY IN THE INTEREST OF THE MEMBERS AND BENEFICIARIES.
2. FOR THE EXCLUSIVE PURPOSE OF PROVIDING BENEFITS TO MEMBERS AND
BENEFICIARIES AND PAYING REASONABLE EXPENSES IN ADMINISTERING THE PLANS AND
SYSTEMS ADMINISTERED BY THE BOARD.
3. WITH THE CARE, SKILL AND CAUTION UNDER THE CIRCUMSTANCES THEN
PREVAILING THAT A PRUDENT PERSON ACTING IN A LIKE CAPACITY AND FAMILIAR WITH
THOSE MATTERS WOULD USE IN THE CONDUCT OF AN ACTIVITY OF LIKE CHARACTER AND
PURPOSE.
4. IMPARTIALLY, TAKING INTO ACCOUNT ANY DIFFERING INTERESTS OF MEMBERS
AND BENEFICIARIES.
5. INCURRING ONLY COSTS THAT ARE APPROPRIATE AND REASONABLE.
6. PURSUANT TO A GOOD-FAITH INTERPRETATION OF THE LAW GOVERNING THE
RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE BOARD.
B. IN INVESTING AND MANAGING ASSETS OF THE RETIREMENT PLANS AND
SYSTEMS ADMINISTERED BY THE BOARD, A TRUSTEE WITH AUTHORITY TO INVEST AND
MANAGE ASSETS:
1. SHALL CONSIDER AT LEAST THE FOLLOWING:
   (a) THE GENERAL ECONOMIC CONDITIONS.
   (b) THE POSSIBLE EFFECT OF INFLATION OR DEFLATION.
   (c) THE ROLE THAT EACH INVESTMENT OR COURSE OF ACTION PLAYS WITHIN THE
OVERALL PORTFOLIO OF THE RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE
BOARD OR APPROPRIATE GROUPING OF PLANS OR SYSTEMS.
   (d) THE EXPECTED TOTAL RETURN FROM INCOME AND THE APPRECIATION OF
CAPITAL.
   (e) THE NEEDS FOR LIQUIDITY, REGULARITY OF INCOME AND PRESERVATION OR
APPRECIATION OF CAPITAL.
(f) For defined benefit plans, the adequacy of funding for the plan based on reasonable actuarial factors.

2. Shall diversify the investments of the retirement plans and systems administered by the board or appropriate grouping of plans or systems unless the trustee reasonably determines that, because of special circumstances, it is clearly prudent not to do so.

3. Shall make a reasonable effort to verify facts relevant to the investment and management of assets of a retirement plan or system.

4. May invest in any kind of property or type of investment consistent with this article.

5. May consider benefits created by an investment in addition to investment return only if the trustee determines that the investment providing these collateral benefits would be prudent even without the collateral benefits.

C. A trustee with authority to invest and manage assets of a retirement plan or system shall adopt a statement of investment objectives and policies for each retirement plan and system administered by the board or appropriate grouping of plans or systems. The statement must include the desired rate of return on assets overall, the desired rates of return and acceptable levels of risk for each asset class, asset-allocation goals, guidelines for the delegation of authority and information on the types of reports to be used to evaluate investment performance. At least annually, the trustee shall review the statement and change or reaffirm it.

D. In evaluating the performance of a trustee or any other fiduciary of the plan or system:

1. Compliance with this section must be determined in light of the facts and circumstances existing at the time of the trustee's or fiduciary's decision or action and not by hindsight.

2. The trustee's investment and management decisions must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the retirement plans and systems administered by the board or appropriate grouping of plans or systems.

E. An employer, member, beneficiary or fiduciary may maintain an action in which the court may award reasonable attorney fees and costs to either party:

1. To enjoin an act, practice or omission that violates this section.

2. For appropriate equitable relief to redress the violation of or to enforce this section.

F. For the purposes of this section:

1. "Fiduciary" means a person who does any of the following:

   (a) Exercises any discretionary authority to manage a retirement plan or system administered by the board.

   (b) Exercises any authority to invest or manage assets of a retirement plan or system administered by the board.

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(c) PROVIDES INVESTMENT ADVICE FOR A FEE OR OTHER DIRECT OR INDIRECT COMPENSATION WITH RESPECT TO ASSETS OF THE SYSTEM OR HAS ANY AUTHORITY OR RESPONSIBILITY TO DO SO.

(d) SERVES AS A TRUSTEE OR MEMBER OF THE BOARD.

2. "TRUSTEE" MEANS A PERSON WHO HAS ULTIMATE AUTHORITY TO MANAGE A RETIREMENT SYSTEM OR PLAN OR TO INVEST OR MANAGE ITS ASSETS.

Sec. 13. **Repeal**
Sections 38-856, 38-856.01, 38-856.02, 38-856.03 and 38-856.04, Arizona Revised Statutes, are repealed.

Sec. 14. Title 38, chapter 5, article 4, Arizona Revised Statutes, is amended by adding sections 38-856.05, 38-856.06 and 38-861, to read:

38-856.05. **Cost-of-living adjustment; members hired on or before June 30, 2017**

A. FOR MEMBERS HIRED ON OR BEFORE JUNE 30, 2017, EACH RETIRED MEMBER OR SURVIVOR OF A RETIRED MEMBER IS ELIGIBLE TO RECEIVE A COMPOUNDING COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT AS PROVIDED IN THIS SECTION. THE FIRST PAYMENT UNDER THIS SECTION SHALL BE MADE IMMEDIATELY FOLLOWING THE FIRST YEAR THE COST-OF-LIVING ADJUSTMENT SPECIFIED IN SUBSECTION C OF THIS SECTION IS PAID. THE COST-OF-LIVING ADJUSTMENT SHALL BE MADE ON JULY 1 EACH YEAR THEREAFTER.

B. A RETIRED MEMBER OR A SURVIVOR OF A RETIRED MEMBER SHALL RECEIVE ANNUALLY A COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT BASED ON THE AVERAGE ANNUAL PERCENTAGE CHANGE IN THE METROPOLITAN PHOENIX-MESA CONSUMER PRICE INDEX PUBLISHED BY THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, WITH THE IMMEDIATELY PRECEDING YEAR AS THE BASE YEAR FOR MAKING THE DETERMINATION, NOT TO EXCEED ANNUALLY TWO PERCENT OF THE RETIRED MEMBER'S OR SURVIVOR'S BASE BENEFIT.

C. IN THE FIRST YEAR OF A MEMBER'S RETIREMENT, THE COST-OF-LIVING ADJUSTMENT SPECIFIED IN SUBSECTION B OF THIS SECTION SHALL BE PRORATED BASED ON THE DATE OF RETIREMENT.

D. THE SYSTEM ACTUARY SHALL INCLUDE THE PROJECTED COST OF PROVIDING THE COST-OF-LIVING ADJUSTMENT SPECIFIED IN SUBSECTION B OF THIS SECTION IN THE CALCULATION OF NORMAL COST AND ACCRUED LIABILITY.

38-856.06. **Cost-of-living adjustment; members hired on or after July 1, 2017; definition**

A. FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017, EACH ELIGIBLE RETIRED MEMBER OR SURVIVOR OF A RETIRED MEMBER MAY RECEIVE A COMPOUNDING COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT AS PROVIDED IN THIS SECTION.

B. A RETIRED MEMBER OR SURVIVOR OF A RETIRED MEMBER IS ELIGIBLE TO RECEIVE A COST-OF-LIVING ADJUSTMENT UNDER THIS SECTION BEGINNING THE EARLIER OF THE FIRST CALENDAR YEAR AFTER THE SEVENTH ANNIVERSARY OF THE RETIRED MEMBER'S RETIREMENT OR WHEN THE RETIRED MEMBER IS OR WOULD HAVE BEEN SIXTY YEARS OF AGE.
C. A cost-of-living adjustment shall be paid on July 1 each year that the funded ratio for members who are hired on or after July 1, 2017 is seventy percent or more, as reported in the most recent actuarial valuation.

D. An eligible retired member or survivor of a retired member shall receive annually a cost-of-living adjustment in the base benefit based on the average annual percentage change in the metropolitan Phoenix-Mesa consumer price index published by the United States Department of Labor, Bureau of Labor Statistics, with the immediately preceding year as the base year for making the determination, not to exceed annually the following:

1. Two percent of the retired member's or survivor's base benefit if the funded ratio for members who are hired on or after July 1, 2017 is ninety percent or more, as reported in the most recent actuarial valuation.

2. One and one-half percent of the retired member's or survivor's base benefit if the funded ratio for members who are hired on or after July 1, 2017 is eighty percent or more but less than ninety percent, as reported in the most recent actuarial valuation.

3. One percent of the retired member's or survivor's base benefit if the funded ratio for members who are hired on or after July 1, 2017 is seventy percent or more but less than eighty percent, as reported in the most recent actuarial valuation.

E. The system actuary shall include the projected cost of providing the cost-of-living adjustment specified in subsection D of this section in the calculation of normal cost and accrued liability.

F. For the purposes of this section, "funded ratio" means the ratio of the market value of assets to the actual accrued liabilities.

38-861. Future benefit increases; payment; cost calculation; definition

A. Any future benefit increase adopted by the legislature for any member of the system shall be fully paid in the year of enactment of the benefit and may not be amortized over any period of years. A benefit for members hired before July 1, 2017 shall be paid by the employer and the cost of the benefit for members hired on or after July 1, 2017 shall be split equally between the employer and the member pursuant to section 38-843, subsection G.

B. The plan actuary shall calculate the cost of the benefit increase using all of the following:

1. A discount rate equal to the ten-year treasury constant maturity rate for the fiscal year in which the benefit is enacted.

2. An expected rate of return on assets equal to the ten-year treasury constant maturity rate for the fiscal year in which the benefit is enacted.

3. A mortality table based on the most recent proposal from the retirement plans experience committee of the society of actuaries that is not older than the RP-2014 mortality table.

4. All other actuarial assumptions approved by the board for the most recent fiscal year valuation.
C. For the purposes of this section, "future benefit increase" includes any benefit increase that leads to a change in the present value of future benefits or a change to accrued liabilities.

Sec. 15. Title 38, chapter 5, Arizona Revised Statutes, is amended by adding articles 4.1 and 4.2, to read:

ARTICLE 4.1. PUBLIC SAFETY PERSONNEL DEFINED
CONTRIBUTION RETIREMENT PLAN

38-865. Definitions
In this article, unless the context otherwise requires:
1. "Annuity account" means an account that is established for each participant to record the deposit of participant contributions, employer contributions and interest, dividends or other accumulations credited on behalf of the participant.
2. "Board" means the board of trustees of the public safety personnel retirement system established by section 38-848.
3. "Compensation" has the same meaning prescribed in section 38-842.
4. "Defined contribution plan" means the public safety personnel defined contribution retirement plan established pursuant to this article.
5. "Employer" has the same meaning prescribed in section 38-842.
6. "Employer contribution" means an amount deposited by an employer, from the employer's own monies, in the participant's annuity account on a periodic basis coinciding with the participant's regular pay period.
7. "Participant" means a member as defined in section 38-842, paragraph 31, excluding subdivision (a), item (vi), who is one of the following:
   (a) An employee who is hired on or after July 1, 2017, who makes the irrevocable election to participate solely in the defined contribution plan established pursuant to this article and who was not an active, an inactive or a retired member of the system or a member of the system with a disability on June 30, 2017.
   (b) An employee who is hired on or after July 1, 2017, who is not covered by the federal old age and survivors insurance system and who makes the irrevocable election to participate in the system or is enrolled in the system pursuant to section 38-842.01, subsection A.
8. "Pensionable compensation" means the amount of the participant's annual compensation that does not exceed the limitation specified in section 38-843.04.
9. "System" means the public safety personnel retirement system established by article 4 of this chapter.

38-865.01. Definition of participant
For the purposes of this article, "participant" includes a member as defined in section 38-842, paragraph 31, excluding subdivision (a), item (vi), who is hired on or after January 1, 2012 and before July 1, 2017, who is not covered by the federal old age and survivors insurance system and who is a member of the system.
A. THE BOARD SHALL ESTABLISH, DESIGN AND ADMINISTER A DEFINED CONTRIBUTION PLAN TO PROVIDE FOR THE RETIREMENT OF SPECIFIED PARTICIPANTS BEGINNING JULY 1, 2017.

B. THE PURPOSE OF THIS ARTICLE IS TO PROVIDE A DEFINED CONTRIBUTION PLAN THAT IS FULLY FUNDED ON A CURRENT BASIS FROM EMPLOYER AND PARTICIPANT CONTRIBUTIONS.

C. THE LEGISLATURE INTENDS THAT THE DEFINED CONTRIBUTION PLAN FOR PARTICIPANTS UNDER THIS ARTICLE BE DESIGNED TO BE A QUALIFIED GOVERNMENTAL PLAN UNDER SECTION 401(a) OF THE INTERNAL REVENUE CODE, AS AMENDED, OR SUCCESSOR PROVISIONS OF LAW, AND BE EXEMPT FROM TAXATION UNDER SECTION 501 OF THE INTERNAL REVENUE CODE. THE BOARD MAY ADOPT ANY ADDITIONAL PROVISION TO THE DEFINED CONTRIBUTION PLAN THAT IS NECESSARY TO FULFILL THIS INTENT. CONSISTENT WITH THIS INTENT, THE BOARD MAY SUBMIT TO THE INTERNAL REVENUE SERVICE A REQUEST FOR A DETERMINATION LETTER THAT THE DEFINED CONTRIBUTION PLAN IS A PLAN QUALIFIED UNDER SECTION 401(a) OF THE INTERNAL REVENUE CODE AND A PRIVATE LETTER RULING THAT ALL PARTICIPANT CONTRIBUTIONS THAT ARE PICKED UP BY THE EMPLOYER AS PROVIDED IN SECTION 38-867 SHALL BE TREATED AS EMPLOYER CONTRIBUTIONS PURSUANT TO SECTION 414(h) OF THE INTERNAL REVENUE CODE.

D. THE BOARD SHALL:

1. ENTER INTO A CONTRACT WITH A PROVIDER TO PROVIDE FULLY BUNDLED RETIREMENT PLAN INVESTMENTS, PLAN ADMINISTRATION AND SERVICES TO PARTICIPANTS IN THE DEFINED CONTRIBUTION PLAN. THE CONTRACT SHALL PROVIDE FOR APPROPRIATE LONG-TERM RETIREMENT-ORIENTED INVESTMENTS AND SHALL INCLUDE BOTH FIXED AND VARIABLE DEFERRED ANNUITIES. THE BOARD SHALL CONSIDER ALL OF THE FOLLOWING WHEN DETERMINING A COMPANY WITH WHICH TO CONTRACT:
   (a) THE FINANCIAL STABILITY OF THE COMPANY AND THE ABILITY OF THE COMPANY TO PROVIDE THE CONTRACTED RIGHTS AND BENEFITS TO THE PARTICIPANTS.
   (b) THE COST OF THE INVESTMENTS, PLAN ADMINISTRATION AND SERVICES TO THE PARTICIPANTS.
   (c) THE EXPERIENCE OF THE COMPANY IN PROVIDING DEFINED CONTRIBUTION RETIREMENT PLANS IN LIEU OF DEFINED BENEFIT PLAN PARTICIPATION TO PUBLIC EMPLOYEES.
   (d) THE EXPERIENCE OF THE COMPANY IN PAYING RETIREMENT INCOME TO PUBLIC EMPLOYEES.
   (e) THE EXPERIENCE OF THE COMPANY IN PROVIDING PLAN EDUCATION, COUNSELING AND ADVICE TO PARTICIPANTS IN PUBLIC EMPLOYEE RETIREMENT PLANS THAT ARE OFFERED IN LIEU OF STATE DEFINED BENEFIT PLAN PARTICIPATION.

2. REQUIRE UNDER THE CONTRACT THAT THE PROVIDER PROVIDE EDUCATION, COUNSELING AND OBJECTIVE PARTICIPANT-SPECIFIC PLAN ADVICE TO PARTICIPANTS.

3. REQUIRE UNDER THE CONTRACT THAT THE DEFINED CONTRIBUTION PLAN INCLUDE NOT LESS THAN FIVE AND NOT MORE THAN FIFTEEN PREDETERMINED INVESTMENT PORTFOLIO OPTIONS TO PARTICIPANTS. THE PREDETERMINED INVESTMENT PORTFOLIO
OPTIONS SHALL INCLUDE OPTIONS THAT REFLECT DIFFERENT RISK PROFILES AND OPTIONS THAT AUTOMATICALLY REALLOCATE AND REBALANCE CONTRIBUTIONS AS A PARTICIPANT AGES. IN ADDITION, THE DEFINED CONTRIBUTION PLAN MAY PERMIT PARTICIPANTS TO CONSTRUCT INVESTMENT PORTFOLIOS USING SOME OR ALL OF THE INVESTMENT OPTIONS COMPRISING THE PREDETERMINED INVESTMENT PORTFOLIO OPTIONS.

4. REQUIRE UNDER THE CONTRACT THAT THE DEFINED CONTRIBUTION RETIREMENT PLAN OFFER PARTICIPANTS A MENU OF LIFETIME ANNUITY OPTIONS, EITHER FIXED OR VARIABLE OR A COMBINATION OF BOTH.

E. THE BOARD MAY:
1. EMPLOY OTHER SERVICES IT DEEMS NECESSARY, INCLUDING LEGAL SERVICES, FOR THE OPERATION AND ADMINISTRATION OF THE DEFINED CONTRIBUTION PLAN.
2. PERFORM ALL ACTS, WHETHER OR NOT EXPRESSLY AUTHORIZED, THAT IT DEEMS NECESSARY AND PROPER FOR THE OPERATION AND PROTECTION OF THE PLAN.


G. THE BOARD SHALL PARTICIPATE IN A COMPETITIVE BID PROCESS AT LEAST ONCE EVERY FIVE YEARS TO CONTRACT WITH A PRIVATE PERSON OR ANY QUALIFIED COMPANY OR COMPANIES TO ADMINISTER THE DEFINED CONTRIBUTION PLAN ESTABLISHED PURSUANT TO THIS ARTICLE.


38-867. Contributions; member; employer; pick-up

A. EACH PARTICIPANT IN THE DEFINED CONTRIBUTION PLAN SHALL CONTRIBUTE THE FOLLOWING PERCENTAGE OF THE PARTICIPANT’S GROSS PENSIONABLE COMPENSATION BY SALARY REDUCTION THAT SHALL BE DEPOSITED IN THE PARTICIPANT’S ANNUITY ACCOUNT:
1. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (b), THREE PERCENT.
2. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (a), NINE PERCENT.

B. A PARTICIPANT AS DEFINED IN SECTION 38-865 MAY MAKE A ONE-TIME IRREVOCABLE ELECTION, BEFORE THE PARTICIPANT IS ELIGIBLE TO PARTICIPATE IN ANY QUALIFIED PLAN OF THE EMPLOYER, TO CONTRIBUTE MORE THAN THE PERCENTAGE OF THE PARTICIPANT’S GROSS PENSIONABLE COMPENSATION SPECIFIED IN THIS SECTION, UP TO THE AMOUNT ALLOWABLE UNDER SECTION 415(c) OF THE INTERNAL REVENUE CODE,
WHICH SHALL BE THE PARTICIPANT’S CONTRIBUTION RATE FOR THE REMAINDER OF THE
PARTICIPANT’S EMPLOYMENT WITH ANY EMPLOYER UNDER THE SYSTEM.

C. ALTHOUGH DESIGNATED AS EMPLOYEE CONTRIBUTIONS, ALL PARTICIPANT
CONTRIBUTIONS MADE TO THE DEFINED CONTRIBUTION PLAN SHALL BE PICKED UP AND
PAID BY THE EMPLOYER IN LIEU OF CONTRIBUTIONS BY THE EMPLOYEE. THE
CONTRIBUTIONS PICKED UP BY AN EMPLOYER MAY BE MADE THROUGH A REDUCTION IN THE
PARTICIPANT’S COMPENSATION. A PARTICIPANT IN THE DEFINED CONTRIBUTION PLAN
MAY NOT CHOOSE TO RECEIVE THE CONTRIBUTED AMOUNTS DIRECTLY INSTEAD OF THE
EMPLOYER PAYING THE AMOUNTS TO THE DEFINED CONTRIBUTION PLAN. ALL
PARTICIPANT CONTRIBUTIONS THAT ARE PICKED UP BY THE EMPLOYER AS PROVIDED IN
THIS SUBSECTION SHALL BE TREATED AS EMPLOYER CONTRIBUTIONS UNDER SECTION
414(h) OF THE INTERNAL REVENUE CODE, SHALL BE EXCLUDED FROM PARTICIPANT’S
GROSS INCOME FOR FEDERAL AND STATE INCOME TAX PURPOSES AND ARE INCLUDABLE IN
THE GROSS INCOME OF THE PARTICIPANT OR THE PARTICIPANT’S BENEFICIARIES ONLY
IN THE TAXABLE YEAR IN WHICH THEY ARE DISTRIBUTED.

D. EACH EMPLOYER SHALL ANNUALLY MAKE A CONTRIBUTION EQUAL TO THE
FOLLOWING PERCENTAGES OF EACH PARTICIPANT’S GROSS PENSIONABLE COMPENSATION:

1. FOR A PARTICIPANT DEFINED IN SECTION 38-865, PARAGRAPH 7,
SUBDIVISION (b), THREE PERCENT.

2. FOR A PARTICIPANT DEFINED IN SECTION 38-865, PARAGRAPH 7,
SUBDIVISION (a), NINE PERCENT.

E. THE PRO RATA SHARE OF THE AMOUNT PAID IN SUBSECTION D OF THIS
SECTION SHALL BE PAID ON EACH DATE THAT A PARTICIPANT CONTRIBUTION IS MADE
AND SHALL BE CREDITED TO THE PARTICIPANT’S ANNUITY ACCOUNT.

F. A PARTICIPANT OF THE DEFINED CONTRIBUTION PLAN MAY NOT TAKE LOANS
ON ANY PORTION OF THE ACCUMULATED ASSETS IN THE PARTICIPANT’S ANNUITY
ACCOUNT.

G. EACH PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7,
SUBDIVISION (a) AND EACH EMPLOYER SHALL CONTRIBUTE TO THE PUBLIC SAFETY
PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN DISABILITY PROGRAM ESTABLISHED
BY ARTICLE 4.2 OF THIS CHAPTER.

H. A PARTICIPANT’S CONTRIBUTIONS AND EARNINGS ON THOSE CONTRIBUTIONS
ARE IMMEDIATELY VESTED. A PARTICIPANT IS FULLY VESTED IN THE DEFINED
CONTRIBUTION PLAN AFTER TEN YEARS OF SERVICE, WITH EMPLOYER CONTRIBUTIONS
VESTING AT A RATE OF TEN PERCENT PER YEAR.

38-868. Contributions; member; employer; applicability of
article

A. ON OR BEFORE JUNE 30, 2017, A PARTICIPANT AS DEFINED IN SECTION
38-865.01 MAY MAKE AN IRREVOCABLE ELECTION TO OPT OUT OF THE DEFINED
CONTRIBUTION PLAN ESTABLISHED BY THIS ARTICLE, WHICH SHALL BE THE
PARTICIPANT’S ELECTION FOR THE REMAINDER OF THE PARTICIPANT’S EMPLOYMENT WITH
ANY EMPLOYER UNDER THE SYSTEM.

B. BEGINNING JULY 1, 2017, A PARTICIPANT AS DEFINED IN SECTION
38-865.01 IN THE DEFINED CONTRIBUTION PLAN SHALL CONTRIBUTE THREE PERCENT OF
THE PARTICIPANT'S GROSS PENSIONABLE COMPENSATION BY SALARY REDUCTION THAT
SHALL BE DEPOSITED IN THE PARTICIPANT'S ANNUITY ACCOUNT.

C. EACH EMPLOYER OF A PARTICIPANT AS DEFINED IN SECTION 38-865.01
SHALL ANNUALLY MAKE A CONTRIBUTION EQUAL TO THE FOLLOWING PERCENTAGES OF THE
PARTICIPANT'S GROSS PENSIONABLE COMPENSATION:

1. FOR A PARTICIPANT THAT IS HIRED IN 2012, FOR FISCAL YEARS 2017-2018
   THROUGH 2023-2024, FOUR PERCENT AND THREE PERCENT FOR EACH FISCAL YEAR
   THEREAFTER.

2. FOR A PARTICIPANT THAT IS HIRED IN 2013, FOR FISCAL YEARS 2017-2018
   THROUGH 2022-2023, FOUR PERCENT AND THREE PERCENT FOR EACH FISCAL YEAR
   THEREAFTER.

3. FOR A PARTICIPANT THAT IS HIRED IN 2014, FOR FISCAL YEARS 2017-2018
   THROUGH 2021-2022, FOUR PERCENT AND THREE PERCENT FOR EACH FISCAL YEAR
   THEREAFTER.

4. FOR A PARTICIPANT THAT IS HIRED IN 2015, FOR FISCAL YEARS 2017-2018
   THROUGH 2020-2021, FOUR PERCENT AND THREE PERCENT FOR EACH FISCAL YEAR
   THEREAFTER.

5. FOR A PARTICIPANT THAT IS HIRED IN 2016, FOR FISCAL YEARS 2017-2018
   THROUGH 2019-2020, FOUR PERCENT AND THREE PERCENT FOR EACH FISCAL YEAR
   THEREAFTER.

6. FOR A PARTICIPANT THAT IS HIRED ON OR AFTER JANUARY 1, 2017 AND
   BEFORE JULY 1, 2017, FOR FISCAL YEAR 2017-2018, FOUR PERCENT AND THREE
   PERCENT FOR EACH FISCAL YEAR THEREAFTER.

D. ALL OF THE PROVISIONS OF THIS ARTICLE APPLY TO A PARTICIPANT AS
   DEFINED IN SECTION 38-865.01.

E. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865.01, AN EMPLOYER MAY
   CHOOSE TO PAY A PORTION OF THE PARTICIPANT'S CONTRIBUTIONS UNDER THIS SECTION
   IN AN AMOUNT OF NOT MORE THAN THE DIFFERENCE BETWEEN THE CONTRIBUTION RATE
   SPECIFIED UNDER SECTION 38-843 FOR EMPLOYEES HIRED ON OR AFTER JANUARY 1,
   2012 AND BEFORE JULY 1, 2017 AND FOR ANY EMPLOYEE HIRED BEFORE JANUARY 1,
   2012.

ARTICLE 4.2. PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION
RETIEMENT PLAN DISABILITY PROGRAM

38-870. Definitions

IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

1. "ASSETS" MEANS THE ACCUMULATED RESOURCES OF THE DISABILITY PROGRAM.

2. "BOARD" MEANS THE BOARD OF TRUSTEES ESTABLISHED BY SECTION 38-848.

3. "COMPENSATION" HAS THE SAME MEANING PRESCRIBED IN SECTION 38-842.

4. "DISABILITY PROGRAM" OR "PROGRAM" MEANS THE PUBLIC SAFETY PERSONNEL
   DEFINED CONTRIBUTION RETIREMENT PLAN DISABILITY PROGRAM ESTABLISHED BY THIS
   ARTICLE.

5. "PARTICIPANT" MEANS A PARTICIPANT WHO IS IN THE PUBLIC SAFETY
   PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN AND WHO IS A PARTICIPANT AS
   DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (a).
6. "PENSIONABLE COMPENSATION" HAS THE SAME MEANING PRESCRIBED IN
SECTION 38-865.

38-870.01. Disability program; administration; power and duties
of the board; hearing

A. THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN
DISABILITY PROGRAM IS ESTABLISHED FOR PARTICIPANTS IN THE PUBLIC SAFETY
PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN WHO HAVE ELECTED TO
PARTICIPATE SOLELY IN THE DEFINED CONTRIBUTION PLAN ESTABLISHED PURSUANT TO
ARTICLE 4.1 OF THIS CHAPTER. THE BOARD SHALL ADMINISTER THE DISABILITY
PROGRAM.

B. THE BOARD MAY DELEGATE AUTHORITY TO ADMINISTER THE PROGRAM AS IT
DEEMS NECESSARY AND PRUDENT TO THE ADMINISTRATOR EMPLOYED PURSUANT TO SECTION
38-848.

C. THE BOARD, IN THE ADMINISTRATION, MANAGEMENT AND OPERATION OF THE
PROGRAM, SHALL:

1. ACCOUNT FOR THE OPERATION, ADMINISTRATION AND INVESTMENT EXPENSES
AND ALLOCATE THEM AGAINST INVESTMENT INCOME.

2. CONTRACT ON A FEE BASIS WITH AN ACTUARY TO MAKE AN ACTUARIAL
VALUATION OF THE PROGRAM BASED ON THE VALUATION METHOD AND VALUATION
ASSUMPTIONS RECOMMENDED BY THE ACTUARY AND APPROVED BY THE BOARD. THE
ACTUARY SHALL BE A MEMBER OF THE AMERICAN ACADEMY OF ACTUARIES.

3. CONTRACT ON A FEE BASIS WITH AN INDEPENDENT AUDITING FIRM TO MAKE
AN ANNUAL AUDIT OF THE ACCOUNTING RECORDS OF THE FUND AND FILE A COPY OF THE
AUDIT WITH THE AUDITOR GENERAL.

4. INVEST THE MONIES IN THE FUND AS PROVIDED IN ARTICLE 4 OF THIS
CHAPTER.

D. THE BOARD, IN THE ADMINISTRATION, MANAGEMENT AND OPERATION OF THE
PROGRAM, MAY:

1. EMPLOY SERVICES AS IT DEEMS NECESSARY.

2. EITHER KEEP INVESTED MONIES SEPARATE OR COMMINGLE INVESTED MONIES
AS IT DEEMS APPROPRIATE.

3. DO ALL ACTS, WHETHER EXPRESSLY AUTHORIZED, THAT MAY BE DEEMED
NECESSARY OR PROPER FOR THE PROTECTION OF THE FUND.

4. DETERMINE THE RIGHTS, BENEFITS OR OBLIGATIONS OF ANY PERSON UNDER
THIS ARTICLE AND AFFORD ANY PERSON DISSATISFIED WITH A DETERMINATION OF THE
PERSON'S RIGHTS, BENEFITS OR OBLIGATIONS UNDER THIS ARTICLE WITH A HEARING ON
THE DETERMINATION.

38-870.02. Disability program trust fund

A. THE DISABILITY PROGRAM TRUST FUND IS ESTABLISHED FOR THE PURPOSE OF
PAYING BENEFITS UNDER AND COSTS OF ADMINISTERING THE DISABILITY PROGRAM. THE
TRUST FUND SHALL BE ADMINISTERED BY THE BOARD.

B. THE DISABILITY PROGRAM TRUST FUND CONSISTS OF ALL MONIES PAID INTO
THE TRUST FUND PURSUANT TO THIS ARTICLE, WHETHER IN THE FORM OF CASH,
SECURITIES OR OTHER ASSETS, AND ALL MONIES RECEIVED FROM ANY OTHER SOURCE.
EXCEPT AS PROVIDED IN SUBSECTION C, PARAGRAPH 1 OF THIS SECTION, THE DISABILITY PROGRAM TRUST FUND IS EXEMPT FROM TITLE 44, CHAPTER 3.

C. ABANDONED MONIES SHALL REVERT TO THE DISABILITY PROGRAM TRUST FUND UNDER THE FOLLOWING CONDITIONS:

1. MONIES IN THE TRUST FUND ARE PRESUMED ABANDONED IF THE SYSTEM HAS TAKEN THE REQUIRED ACTION DESCRIBED IN THIS SUBSECTION TO IDENTIFY AND LOCATE THE APPARENT OWNER AND THE APPARENT OWNER AS DEFINED IN SECTION 44-301 HAS NOT COMMUNICATED IN WRITING WITH THE SYSTEM AND HAS NOT OTHERWISE INDICATED AN INTEREST IN THE MONIES FOR THE THREE-YEAR PERIOD FOLLOWING THE REQUIRED BEGINNING DATE OF DISTRIBUTIONS.

2. BEFORE MONIES ARE PRESUMED ABANDONED, THE SYSTEM SHALL ATTEMPT TO CONTACT THE APPARENT OWNER IN WRITING. IF THIS NOTICE IS RETURNED BY THE POSTAL AUTHORITY AS UNDELIVERABLE, EACH YEAR FOR THREE YEARS FROM THE DATE THAT DISTRIBUTIONS SHOULD HAVE BEGUN, THE SYSTEM SHALL MAKE A GOOD FAITH ATTEMPT TO LOCATE THE APPARENT OWNER, INCLUDING CONTACTING ANY KNOWN BENEFICIARY ON RECORD WITH THE SYSTEM, SEARCHING PUBLIC DATABASES TO IDENTIFY THE ADDRESS OF THE APPARENT OWNER OR USING THE SERVICES OF A THIRD-PARTY ADDRESS VERIFICATION SERVICE. IF THE GOOD FAITH ATTEMPT TO LOCATE THE APPARENT OWNER FAILS, MONIES ARE PRESUMED ABANDONED PURSUANT TO THIS SUBSECTION.

3. AT THE TIME MONIES ARE PRESUMED ABANDONED PURSUANT TO THIS SUBSECTION, ANY OTHER PROPERTY RIGHT ACCRUED OR ACCRUING TO THE APPARENT OWNER AS A RESULT OF THE INTEREST IN THOSE MONIES, AND NOT PREVIOUSLY PRESUMED ABANDONED, IS ALSO PRESUMED ABANDONED.

4. INTEREST CEASES TO ACCRUE ON THE MONIES ON THE DATE THE MONIES ARE PRESUMED ABANDONED.

D. THE CUSTODY, MANAGEMENT AND INVESTMENT OF THE DISABILITY PROGRAM TRUST FUND ARE AS PRESCRIBED BY THIS ARTICLE AND ARTICLE 4 OF THIS CHAPTER.

38-870.03. Eligibility
ALL PARTICIPANTS ARE SUBJECT TO THIS ARTICLE AND SHALL PARTICIPATE IN THE DISABILITY PROGRAM.

38-870.04. Employer and participant contributions
A. BEGINNING JULY 1, 2017, EMPLOYERS SHALL CONTRIBUTE THE PERCENTAGE OF THE GROSS PENSIONABLE COMPENSATION OF ALL OF THE PARTICIPANTS UNDER THEIR EMPLOYMENT SO THAT THE TOTAL EMPLOYER CONTRIBUTIONS EQUALS THE AMOUNT THAT THE BOARD DETERMINES IS NECESSARY TO PAY ONE-HALF OF ALL BENEFITS UNDER AND COSTS OF ADMINISTERING THE DISABILITY PROGRAM.

B. BEGINNING JULY 1, 2017, A PARTICIPANT SHALL CONTRIBUTE A PERCENTAGE OF THE PARTICIPANT’S GROSS PENSIONABLE COMPENSATION EQUAL TO THE EMPLOYER CONTRIBUTION FOR THE PARTICIPANT REQUIRED PURSUANT TO SUBSECTION A OF THIS SECTION.

C. THE EMPLOYER SHALL PAY THE PARTICIPANT CONTRIBUTIONS REQUIRED OF PARTICIPANTS ON ACCOUNT OF GROSS PENSIONABLE COMPENSATION EARNED. ALL EMPLOYER AND PARTICIPANT CONTRIBUTIONS SHALL BE PAID TO THE BOARD. THE BOARD
SHALL ALLOCATE THE CONTRIBUTIONS TO THE DISABILITY PROGRAM TRUST FUND AND
SHALL PLACE THE CONTRIBUTIONS IN THE DISABILITY PROGRAM’S DEPOSITORY.

D. EACH EMPLOYER SHALL CERTIFY ON EACH PAYROLL THE AMOUNT TO BE
CONTRIBUTED TO THE DISABILITY PROGRAM AND SHALL REMIT THAT AMOUNT TO THE
BOARD.

E. THE DEPARTMENT OF ADMINISTRATION AND THE TREASURER OF EACH COUNTY
AND PARTICIPATING CITY AND TOWN SHALL TRANSFER TO THE BOARD THE CONTRIBUTIONS
PROVIDED FOR IN SUBSECTIONS A AND B OF THIS SECTION WITHIN TEN WORKING DAYS
AFTER EACH PAYROLL DATE. CONTRIBUTIONS TRANSFERRED AFTER THESE DATES SHALL
INCLUDE A PENALTY EQUAL TO TEN PERCENT PER ANNUM, COMPOUNDED DAILY, FOR EACH
DAY THAT THE CONTRIBUTIONS ARE LATE. DELINQUENT PAYMENTS DUE UNDER THIS
SUBSECTION, TOGETHER WITH INTEREST CHARGES AS PROVIDED IN THIS SUBSECTION AND
COURT COSTS, MAY BE RECOVERED BY ACTION IN A COURT OF COMPETENT JURISDICTION
AGAINST THE PERSON OR PERSONS RESPONSIBLE FOR THE PAYMENTS OR, AT THE REQUEST
OF THE BOARD, MAY BE DEDUCTED FROM ANY OTHER MONIES, INCLUDING EXCISE REVENUE
TAXES, PAYABLE TO A POLITICAL SUBDIVISION BY ANY DEPARTMENT OR AGENCY OF THIS
STATE.

F. IF MORE THAN THE CORRECT AMOUNT OF CONTRIBUTIONS REQUIRED IS PAID
BY AN EMPLOYER, PROPER ADJUSTMENT SHALL BE MADE IN CONNECTION WITH SUBSEQUENT
PAYMENTS. THE BOARD SHALL RETURN EXCESS CONTRIBUTIONS TO THE EMPLOYER IF THE
EMPLOYER REQUESTS RETURN OF THE CONTRIBUTIONS WITHIN ONE YEAR AFTER THE DATE
OF OVERPAYMENT.

G. PARTICIPANT CONTRIBUTIONS ARE NOT REFUNDABLE.

38-870.05. Contribution rate

A. EMPLOYER CONTRIBUTIONS SHALL BE A PERCENTAGE OF GROSS PENSIONABLE
COMPENSATION FOR EACH PARTICIPANT, AS THE SYSTEM ACTUARY DETERMINES PURSUANT
TO THIS SECTION. THE ACTUARY SHALL MAKE THIS DETERMINATION IN AN ANNUAL
VALUATION PERFORMED AS OF JUNE 30. THE VALUATION AS OF JUNE 30 OF A CALENDAR
YEAR SHALL DETERMINE THE PERCENTAGE TO BE APPLIED TO COMPENSATION FOR THE
FISCAL YEAR BEGINNING JULY 1 OF THE FOLLOWING CALENDAR YEAR. THE ACTUARY
SHALL DETERMINE THE TOTAL EMPLOYER CONTRIBUTION USING AN ACTUARIAL COST
METHOD CONSISTENT WITH GENERALLY ACCEPTED ACTUARIAL STANDARDS. THE TOTAL
EMPLOYER CONTRIBUTIONS SHALL BE EQUAL TO THE EMPLOYER NORMAL COST PLUS THE
AMOUNT REQUIRED TO AMORTIZE THE PAST SERVICE FUNDING REQUIREMENT OVER A
PERIOD CONSISTENT WITH GENERALLY ACCEPTED ACTUARIAL STANDARDS.

B. ALL CONTRIBUTIONS MADE BY THE EMPLOYER AND ALLOCATED TO THE
DISABILITY PROGRAM TRUST FUND ESTABLISHED BY SECTION 38-870.02 ARE
IRREVOCABLE AND SHALL BE USED AS BENEFITS UNDER THIS ARTICLE OR TO PAY
EXPENSES OF THE DISABILITY PROGRAM.

38-870.06. Disability program benefit

A. THE BOARD SHALL FOLLOW THE SAME PROCEDURES AND METHOD AS PRESCRIBED
IN SECTION 38-844 TO DETERMINE ELIGIBILITY FOR AND CONTINUATION OF A
DISABILITY BENEFIT AND IN COMPUTING THE AMOUNT AVAILABLE TO THE PARTICIPANT.

B. A PARTICIPANT WHO MEETS THE REQUIREMENTS FOR A DISABILITY PENSION
AS PRESCRIBED IN SECTION 38-844 SHALL RECEIVE A MONTHLY DISABILITY BENEFIT
EQUAL TO A MONTHLY DISABILITY PENSION THAT WOULD BE PROVIDED TO A PUBLIC
SAFETY PERSONNEL RETIREMENT SYSTEM MEMBER WHO IS HIRED ON OR AFTER JULY 1,
2017, REDUCED BY AN AMOUNT EQUAL TO THE MONTHLY ANNUITIZED VALUE OF THE
PARTICIPANT'S ANNUITY ACCOUNT UNDER ARTICLE 4.1 OF THIS CHAPTER THAT DOES NOT
INCLUDE A COST-OF-LIVING ADJUSTMENT, AS DETERMINED BY THE BOARD. IN
DETERMINING THE MONTHLY ANNUITIZED OFFSET VALUE OF THE PARTICIPANT'S ANNUITY
ACCOUNT UNDER ARTICLE 4.1 OF THIS CHAPTER TO BE USED IN REDUCING THE
DISABILITY BENEFIT PAID PURSUANT TO THIS SECTION, THE BOARD SHALL INSTRUCT
THE ACTUARY FOR THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM TO CALCULATE
THE MONTHLY PAYMENT THAT WOULD BE PAID TO THE PARTICIPANT ASSUMING THE
PARTICIPANT HAD ELECTED A STRAIGHT LIFE ANNUITY COMMENCING ON THE
PARTICIPANT'S DATE OF DISABILITY, USING THE MORTALITY AND INTEREST FACTORS
THEN USED BY THE ACTUARY IN DETERMINING THE VALUATION OF THE PUBLIC SAFETY
PERSONNEL RETIREMENT SYSTEM.

Sec. 16. Section 38-883, Arizona Revised Statutes, is amended to read:
38-883. Board of trustees; powers and duties
A. The board shall:
1. Maintain records of the operation and administration of the plan
and fund.
2. Contract on a fee basis for an independent annual audit of the
accounting records of the plan and fund and file a copy of the audit report
with the auditor general.
3. Employ on a fee basis an independent firm of actuaries to perform
annual actuarial valuations for each participating employer of the plan and
fund based on an actuarial cost method and actuarial assumptions recommended
by the actuary and adopted by the board. The actuarial valuations shall be
performed by or under the direct supervision of an actuary who is a member of
the American academy of actuaries. By November 1 of each year, the board
shall provide a preliminary report and by December 15 of each year provide a
final report to the governor, the speaker of the house of representatives and
the president of the senate on the contribution rate for the ensuing fiscal
year.
4. Invest and reinvest the monies and assets of the fund in accordance
with the investment provisions of the public safety personnel retirement
system. The board may commingle securities and monies of the fund subject to
the crediting of receipts and earnings and charging of payments to the
account of the appropriate employer.
5. Submit a detailed annual report of the operation and investment
performance of the plan and fund to the governor, the legislature and the
members of the plan. The board shall submit the annual report no later than
six months after the end of the fiscal year to which it pertains.
B. The board of trustees may:
1. Employ services it deems necessary, including legal services, for
the operation and administration of the plan and fund.
2. Utilize separate or commingled investment vehicles.
3. Delegate authority to the administrator employed pursuant to section 38-848, subsection K–M, paragraph 6.

4. Appear before local boards and the courts and political subdivisions of this state through counsel or appointed representatives to protect the fund. The board of trustees is not responsible for the actions or omissions of the local boards under this plan but may seek review or a rehearing of actions or omissions of local boards. The board of trustees does not have a duty to review actions of the local boards but may do so, in its discretion, in order to protect the fund.

5. Perform all acts, whether or not expressly authorized, that it deems necessary and proper for the protection of the plan and fund.

Sec. 17. Section 38-952, Arizona Revised Statutes, is amended to read:

38-952. Supplemental defined contribution plan; establishment; administration

A. The board or employer of an eligible group may establish, administer, manage and operate a supplemental defined contribution plan. The board of trustees established by section 38-848 may establish a single supplemental defined contribution plan for all contributing members of the retirement system and plans it administers.

B. If a board or employer establishes a supplemental defined contribution plan:

1. The Arizona state retirement system board may delegate authority to implement the plan to its director appointed pursuant to section 38-715.

2. The employer may delegate authority to implement the plan to its internal benefits administrator or designee.

3. The board of trustees may delegate authority to implement the plan to the administrator employed pursuant to section 38-848, subsection K–M, paragraph 6.

4. The board or employer may:

(a) Employ services it deems necessary, including legal services, for the operation and administration of the plan.

(b) Administer the plan through contracts with multiple vendors.

(c) Perform all acts, whether or not expressly authorized, that it deems necessary and proper for the operation and protection of the plan.

(d) For the purposes of this article, enter into intergovernmental agreements pursuant to title 11, chapter 7, article 3.

C. A supplemental defined contribution plan shall be designed to be a qualified governmental plan under section 401(a) of the internal revenue code. The legislature intends that a supplemental defined contribution plan is a qualified plan under section 401 of the internal revenue code, as amended, or successor provisions of law, and that a plan is exempt from taxation under section 501 of the internal revenue code. The board or employer may adopt any additional provisions to a plan that are necessary to fulfill this intent.
D. Although designated as employee contributions, all employee contributions made to a plan shall be picked up and paid by the employer in lieu of contributions by the employee. The contributions picked up by an employer may be made through a reduction in the employee's compensation or an offset against future compensation increases, or a combination of both. An employee participating in a plan does not have the option of choosing to receive the contributed amounts directly instead of the employer paying the amounts to the plan. It is intended that all employee contributions that are picked up by the employer as provided in this subsection shall be treated as employer contributions under section 414(h) of the internal revenue code, shall be excluded from employees' gross income for federal and state income tax purposes and are includable in the gross income of the employees or their beneficiaries only in the taxable year in which they are distributed. The specified effective date of the pickup pursuant to this subsection shall not be before the date the plan receives notification from the internal revenue service that all employee contributions that are picked up by the employer as provided in this subsection shall be treated as employer contributions pursuant to section 414(h) of the internal revenue code. Until notification is received, any employee contributions made under section 38-953 are made with after-tax contributions.

Sec. 18. Study; risk pooling; local board consolidation and structure; recommendations

A. Within fifteen days after the effective date of this act, the public safety personnel retirement system shall commence a study to determine various methods in which risk pooling may be structured and local board consolidation and structure may be accomplished and to determine which methods, if any, are in the best interests of the public safety personnel retirement system's fund, members, beneficiaries and employers.

B. The study shall be presented to the board of trustees of the public safety personnel retirement system on or before January 15, 2017. The board shall consider the study and report its recommendations for legislation to the president of the senate, the speaker of the house of representatives and the governor on or before February 15, 2017.

Sec. 19. Initial appointments of the board of trustees of the public safety personnel retirement system; initial terms

A. For the initial appointments to the board of trustees of the public safety personnel retirement system, on or before August 1, 2016, associations representing public safety personnel, cities and towns in this state and counties in this state shall establish a list of nominees who are qualified pursuant to section 38-848, Arizona Revised Statutes, and willing to serve on the board. The list shall include at least three nominees for each position on the board, which will be forwarded to the appointing elected officials.

B. Each member of the board of trustees of the public safety personnel retirement system shall be selected from the list of nominees presented to
the appointing elected officials for each position on the board. The following elected officials shall make the following appointments:

1. The governor shall appoint:
   a. One member representing law enforcement in this state.
   b. One member representing firefighters in this state.
   c. One member representing cities and towns in this state.
   d. One member representing counties in this state.
   e. One member as specified in section 38-848, subsection A, paragraph 5, Arizona Revised Statutes.

2. The president of the senate shall appoint:
   a. One member representing law enforcement in this state.

3. The speaker of the house of representatives shall appoint:
   a. One member representing firefighters in this state.
   b. One member representing cities and towns in this state.

C. The appointments shall be made in the following order:

1. On or before November 1, 2016, the governor shall make one appointment to the board from the list of nominees followed by one appointment made in turn from the president of the senate and the speaker of the house of representatives until eight members are appointed to the board.

2. The eight members initially appointed to the board pursuant to paragraph 1 of this subsection shall elect a chairperson who shall appoint the advisory committee pursuant to section 38-848, subsection X, Arizona Revised Statutes. The advisory committee shall forward to the newly appointed board of trustees of the public safety personnel retirement system at least five nominees who are qualified pursuant to section 38-848, Arizona Revised Statutes, and willing to serve on the board for the appointment of the ninth member of the board. From that list of nominees, the newly appointed board of trustees of the public safety personnel retirement system shall forward to the governor at least three nominees for the appointment of the ninth member of the board, which shall be made on or before December 1, 2016.

D. If the board members specified in subsection B of this section, except the board member specified in section 38-848, subsection A, paragraph 5, Arizona Revised Statutes, are not appointed by November 1, 2016, the elected official who fails to make an appointment forfeits the appointment and the appointment will be made within fifteen days by the next elected official in the rotation specified in subsection C, paragraph 1 of this section. This rotation shall continue until the eight board members are appointed.

E. Notwithstanding section 38-848, Arizona Revised Statutes, the initial terms of the public safety personnel retirement system board members are:

1. Four terms ending on January 1, 2019 that include:
(a) One member representing law enforcement who is appointed by the governor.
(b) One member representing firefighters who is appointed by the governor.
(c) Two members representing cities and towns in this state, one of whom is appointed by the speaker of the house of representatives and one of whom is appointed by the president of the senate.

2. Five terms ending on January 1, 2021 that include:
(a) One member representing law enforcement who is appointed by the president of the senate.
(b) One member representing firefighters who is appointed by the speaker of the house of representatives.
(c) One member representing cities and towns in this state who is appointed by the governor.
(d) One member representing counties in this state who is appointed by the governor.
(e) The member specified in section 38-848, subsection A, paragraph 5, Arizona Revised Statutes.

F. The subsequent appointments shall be made as prescribed in section 38-848, Arizona Revised Statutes.

Sec. 20. Annual compensation adjustment; employers; public safety wage index
Notwithstanding section 38-843.04, subsection D, Arizona Revised Statutes, as added by this act, beginning July 1, 2017, the employers for the purposes of the public safety wage index are the central Yavapai fire district, department of public safety, Drexel heights fire district, Flagstaff fire department, Flagstaff police department, Arizona game and fish department, Gilbert police department, Glendale police department, Golder ranch fire district, Kingman fire department, Kingman police department, Maricopa county sheriff's department, Mesa police department, Nogales fire department, Nogales police department, Northwest fire district, Phoenix fire department, Phoenix police department, Pima county sheriff's department, Pinal county sheriff's department, Prescott fire department, Prescott police department, Scottsdale police department, Tempe fire department, Tucson fire department and Tucson police department.

Sec. 21. Legislative findings and intent
A. The legislature recognizes that in order to have a sound public retirement system that benefits this state, taxpayers and members of the retirement system, pursuant to article XXIX, Constitution of Arizona, the public retirement system must be funded with contributions and investment earnings based on actuarial methods and assumptions that are consistent with generally accepted actuarial standards. The legislature finds that the current structure of the public safety personnel retirement system does not achieve this goal and that the current system imperils the retirement security that the members of that system have come to expect. For these
reasons, the legislature intends to modify and amend the provisions of the current system for both current and new members to make the system viable and sustainable now and into the future.

B. The legislature further finds:

1. That the current structure of the public safety personnel retirement system does not lead to the goal of attaining one hundred percent funded status and jeopardizes the future payment of benefits to current and future retirees of the retirement program.

2. That the current structure of the public safety personnel retirement system, which requires a fixed employee contribution rate, requires a contribution rate from employees that is insufficient in relation to the cost associated with the benefits required by the plan design and therefore places a greater financial burden on employers. By moving to a shared cost structure, public safety employees will bear increased responsibility for the fiscal health of the fund and, as the fund improves its funded status and approaches fully funded or overfunded status, the employees will realize decreased contribution costs that will be lower than currently required.

3. That the current method of funding benefit increases to retirees of the public safety personnel retirement system is flawed and makes it highly unlikely that this fund will achieve its actuarially assumed earning rates during positive and negative investment environments and creates an undesirable possibility of greater investment risk on the part of the fund's trustees. It is fundamentally unsound to provide a benefit increase during periods when the funded status of the retirement program is less than seventy percent. Changing the manner of funding these benefit increases is intended to improve the funded status of the public safety personnel retirement system and is in the best interests of the members and beneficiaries of this retirement program in that it will preserve future benefits for plan participants.

4. It is necessary to change the future plan and system structures for nonvested members to take into consideration the increased life expectancy of members and future employees and make the reforms necessary to preserve the funded status of the retirement program in future years.

5. To protect the future benefits of retired, active and future employees, it is necessary to make the changes outlined in this act to preserve the funded status of this retirement program and return the program to fiscal solvency.

C. It is the legislature's intent that this act does not impair or amend any agreement between an employee and employer that addresses participation in or contributions to alternative retirement plans or compensation arrangements not administered through the public safety personnel retirement system.
Sec. 22. Conditional enactment

A. Sections 38-856, 38-856.01, 38-856.02, 38-856.03 and 38-856.04, Arizona Revised Statutes, as repealed by this act, section 38-844.05, Arizona Revised Statutes, as amended by this act, and sections 38-856.05, 38-865.01 and 38-868, Arizona Revised Statutes, as added by this act, do not become effective unless the Constitution of Arizona is amended as prescribed in Senate concurrent resolution 1019, fifty-second legislature, second regular session, by vote of the people at the special election conducted on May 17, 2016.

B. The enactment of any provision of this act conditioned on the results of the election does not constitute a submission of any provision of this act to the voters under the power of referendum.

Sec. 23. Severability

If a provision of this act or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of the act that can be given effect without the invalid provision or application, and to this end the provisions of this act are severable.
State of Arizona
Senate
Fifty-second Legislature
Second Regular Session
2016

CHAPTER 3

SENATE BILL 1429

AN ACT

AMENDING LAWS 2015, FIRST SPECIAL SESSION, CHAPTER 2, SECTIONS 2, 3 AND 5; RELATING TO A SPECIAL ELECTION.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

Section 1. Laws 2015, first special session, chapter 2, section 2 is amended to read:

Sec. 2. Purpose of election

The purpose of the special election called by this act is to submit to a vote of the people certain amendments to the Constitution of Arizona that are proposed by:

1. House concurrent resolution 2001, fifty-second legislature, first special session, that are approved by a majority of the members of each house of the legislature and that amend the Constitution of Arizona to provide for education finance.

2. SENATE CONCURRENT RESOLUTION 1019, FIFTY-SECOND LEGISLATURE, SECOND REGULAR SESSION, THAT ARE APPROVED BY A MAJORITY OF THE MEMBERS OF EACH HOUSE OF THE LEGISLATURE AND THAT AMEND THE CONSTITUTION OF ARIZONA TO PROVIDE FOR CHANGES TO PUBLIC RETIREMENT SYSTEMS.

Sec. 2. Laws 2015, first special session, chapter 2, section 3 is amended to read:

Sec. 3. Publicity pamphlet; secretary of state

A. The secretary of state shall cause to be printed in pamphlet form a sample ballot and a true copy of the official title and text of each proposed amendment, with the number and form in which the descriptive title will be printed on the official ballot as prescribed by section 19-125, Arizona Revised Statutes. In addition, the publicity pamphlet shall contain a legislative council analysis, a joint legislative budget committee staff fiscal impact statement summary and any arguments submitted in support of or opposition to the proposed amendments as prescribed by section 19-124, Arizona Revised Statutes. FOR THE EDUCATION FINANCE MEASURE, the legislative council analysis and joint legislative budget committee fiscal impact statement summary shall be submitted to the secretary of state no later than December 4, 2015, and any arguments shall be submitted to the secretary of state no later than December 4, 2015. FOR THE PUBLIC RETIREMENT SYSTEMS MEASURE, THE LEGISLATIVE COUNCIL ANALYSIS AND JOINT LEGISLATIVE BUDGET COMMITTEE FISCAL IMPACT STATEMENT SUMMARY SHALL BE SUBMITTED TO THE SECRETARY OF STATE NO LATER THAN FEBRUARY 23, 2016, AND ANY ARGUMENTS SHALL BE SUBMITTED TO THE SECRETARY OF STATE NO LATER THAN FEBRUARY 23, 2016. A person submitting an argument in support of or opposition to the proposed amendments shall make the payment prescribed pursuant to section 19-124, subsection D, Arizona Revised Statutes.

B. Notwithstanding section 19-123, Arizona Revised Statutes, the secretary of state is not required to conduct public meetings on the proposed amendments.

C. At least ten days before the special election called by this act, the secretary of state shall cause each proposed amendment to be published for a period of at least three days in a daily newspaper in every county in the state in which a newspaper is published or, if there is not such a newspaper, at least one time in a weekly newspaper.
D. The secretary of state shall mail one copy of the publicity pamphlet to every household that contains a registered voter. The mailings may be made over a period of days but shall be mailed in order to be delivered to households before the earliest date for the receipt by registered voters of any requested early ballots for the election.

E. The secretary of state shall distribute the publicity pamphlet in other forms and methods deemed advisable by the secretary of state.

Sec. 3. Laws 2015, first special session, chapter 2, section 5 is amended to read:

Sec. 5. Applicability of general election laws; exceptions

A. The secretary of state and county officers in charge of elections are exempt from compliance with competitive bidding processes to the extent that those processes will conflict with the timely printing and distribution of publicity pamphlets, ballots and other election materials or the timely conduct of the special election required by this act.

B. The special election called by this act shall be governed and administered under the general laws of this state regarding elections to the greatest extent practicable and shall be administered in a manner consistent with a presidential preference election with consolidated precincts, EXCEPT THAT VOTES ARE NOT REQUIRED TO BE TABULATED BY CONGRESSIONAL DISTRICTS. The county boards of supervisors shall deliver the canvass to the secretary of state within ten days after the special election, and the canvass shall be completed by the secretary of state on or before the second Monday after the special election.

Sec. 4. Emergency

This act is an emergency measure that is necessary to preserve the public peace, health or safety and is operative immediately as provided by law.

APPROVED BY THE GOVERNOR FEBRUARY 16, 2016.

SENATE CONCURRENT RESOLUTION 1019

A CONCURRENT RESOLUTION

PROPOSING AN AMENDMENT TO THE CONSTITUTION OF ARIZONA; AMENDING ARTICLE XXIX, SECTION 1, CONSTITUTION OF ARIZONA; RELATING TO PUBLIC RETIREMENT SYSTEMS.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it resolved by the Senate of the State of Arizona, the House of Representatives concurring:

1. Article XXIX, section 1, Constitution of Arizona, is proposed to be amended as follows if approved by the voters and on proclamation of the Governor:

   1. **Public retirement systems**
      
      Section 1. A. Public retirement systems shall be funded with contributions and investment earnings using actuarial methods and assumptions that are consistent with generally accepted actuarial standards.
      
      B. The assets of public retirement systems, including investment earnings and contributions, are separate and independent trust funds and shall be invested, administered and distributed as determined by law solely in the interests of the members and beneficiaries of the public retirement systems.
      
      C. Membership in a public retirement system is a contractual relationship that is subject to article II, section 25. and
      
      D. Public retirement system benefits shall not be diminished or impaired, EXCEPT THAT CERTAIN ADJUSTMENTS TO THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM MAY BE MADE AS PROVIDED IN SENATE BILL 1428, AS ENACTED BY THE FIFTY-SECOND LEGISLATURE, SECOND REGULAR SESSION.
      
      E. THIS SECTION PRESERVES THE AUTHORITY VESTED IN THE LEGISLATURE PURSUANT TO THIS CONSTITUTION AND DOES NOT RESTRICT THE LEGISLATURE'S ABILITY TO MODIFY PUBLIC RETIREMENT SYSTEM BENEFITS FOR PROSPECTIVE MEMBERS OF PUBLIC RETIREMENT SYSTEMS.

2. The Secretary of State shall submit this proposition to the voters at a special election called to be held for that purpose on May 17, 2016 as provided by article XXI, Constitution of Arizona.

PASSED BY THE SENATE FEBRUARY 4, 2016

PASSED BY THE HOUSE FEBRUARY 11, 2016.

SENATE CONCURS IN HOUSE AMENDMENTS FEBRUARY 15, 2016.

Date: February 9, 2016
To: Mr. Jared Smout, Arizona Public Safety Personnel Retirement System (PSPRS)
From: Mark Buis, FSA, EA, MAAA, James D. Anderson, FSA, EA, MAAA, and Francois Pieterse, ASA, MAAA

Re: Senator Lesko Pension Proposal

We have modeled changes listed in a document titled “PSPRS Reform Agreement Framework_draft3.doc” forwarded by PSPRS on December 9, 2015. For comparison purposes, as in past correspondence, this report shows the most recent pension proposal relative to provisions in the most recent valuation (June 30, 2015) and the complete reversal of Senate Bill 1609 – meaning that the Hall case is settled for the plaintiffs. This document updates the original January 18, 2016 and December 23, 2015 documents by providing a graph of these changes. The proposed scenario below contains text from the December 9th document.

June 30, 2015 Valuation Scenario:

- This scenario is based on June 30, 2015 valuation results with the exception that the interest rate used in this scenario was 7.5% instead of 7.85%.

“If SB 1609 is Reversed” Scenario:

- This scenario is based on results after the reversal of Senate Bill 1609 (both Fields and Hall).

Proposed Scenario:

- For all Tier 1 and Tier 2 members, the existing Permanent Benefit Increase (PBI) structure shall be eliminated and replaced with a Cost-of-Living Adjustment (COLA) that is:
  - A compounding COLA based on regional CPI (annual change in the U.S. Bureau of Labor Statistics CPI-U for Phoenix-Mesa, AZ), with a cap of 2%. Later referred to in this letter as “2% capped compound COLA”.

- Defined-Contribution Plan for Tier 2 participants not enrolled in Social Security and hired between January 1, 2012 and December 31, 2016 – 4% employer contribution for up to 7 years, followed by 3% employer contribution thereafter.

- All employees hired on or after January 1, 2017, shall have the option of electing to participate in either the Tier 3 Hybrid Retirement Plan or the Tier 3 Defined Contribution Plan.

  - A new [PSPRS Tier 3 Hybrid Retirement Plan](#) for Police and Fire employees that includes the following elements:
    - Defined-Benefit Pension:
Defined-benefit pension benefit based upon years of credited service at retirement or termination, calculated as the member’s final average compensation times the number of whole and fractional years of credited service times the following:

- 2.50% if the member has at least 25.00 years of credited service.
- 2.25% if the member has at least 22.00 years of credited service, but not more than 24.99 years of credited service.
- 2.00% if the member has at least 19.00 years of credited service, but not more than 21.99 years of credited service.
- 1.75% if the member has at least 17.00 years of credited service, but not more than 18.99 years of credited service.
- 1.50% if the member has at least 15.00 years of credited service, but not more than 16.99 years of credited service.

b. Defined- Contribution Plan for Non-Social Security Employers: Those Tier 3 Hybrid Plan members not enrolled in Social Security shall be provided with a defined-contribution plan with 3% employer contributions, based on 10-year vesting at 10% per year.

c. Equal Cost Sharing on 50/50 basis between Employers and Tier 3 Hybrid Plan employees.

d. Cost-of-Living Adjustment = “2% capped compound COLA”, delayed 7 years after commencement of benefits or age 60, capped (reduced) when plan funded ratio is less than 90%.

e. Retirement Age - The minimum benefit eligibility age for an unreduced pension benefit will be age 55, with 25 years of credited service. Members terminating before meeting this condition are assumed to receive a retirement benefit at age 55.

f./g. The maximum pension benefit will equal 80% of an employee's final 5-year average salary.

h. Beginning on January 1, 2017, the annual compensation of each member taken into account for purposes of the System shall not exceed $110,000, adjusted by CPI.

i. Vesting

- Defined-Benefit Vesting: A member is fully vested in the defined-benefit pension component of the Tier 3 Hybrid after 15 years of service.
- Defined- Contribution Vesting: A member participating in the Non-Social Security defined-contribution component of the Tier 3 Hybrid plan is fully vested in the defined-contribution plan after 10 years of service, with employer contributions vesting at a rate of 10% per year, with the exception of a disability retirement, in which case there would be immediate 100% vesting.

**Tier 3 Defined Contribution Plan:** Members shall be provided with a defined-contribution plan with 9% employer contributions. A member is fully vested in the defined-contribution plan after 10 years of service, with employer contributions vesting at a rate of 10% per year, with the exception of a disability retirement, in which case there would be immediate 100% vesting.
Since we do not yet know the results of the Hall case, we have analyzed the impact both with and without Hall reversing SB1609. It should also be noted that potential savings will occur gradually over time as current active members are replaced by members who receive the new Tier of benefits.

**Hall Case Reverses SB1609**

<table>
<thead>
<tr>
<th>Employer Contribution Rate</th>
<th>Year 1</th>
<th>Year 25</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Proposed</td>
</tr>
<tr>
<td>Employer Contribution Rate</td>
<td>52.7%</td>
<td>51.0%</td>
</tr>
<tr>
<td>Funded Status</td>
<td>42.5%</td>
<td>43.5%</td>
</tr>
</tbody>
</table>

- In year 1, liabilities and employer contribution rates are slightly lower under the Proposed Scenario due to an assumed COLA/PBI of 1.75% in the proposed scenario versus a 2% assumed COLA/PBI in the baseline scenario.
- The ultimate employer normal cost for Tier 3 employees is 9.8% of pay (7.5% DB plus 2.3% DC) in the proposed scenario versus 13.2% in the baseline scenario.
- The COLA provision under the “Proposed Scenario” should provide for a more stable mechanism than the current PBI model since the COLA under the Proposed Scenario is not dependent on excess investment income.

**Hall Case Does Not Reverse SB1609**

<table>
<thead>
<tr>
<th>Employer Contribution Rate</th>
<th>Year 1</th>
<th>Year 25</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Proposed</td>
</tr>
<tr>
<td>Employer Contribution Rate</td>
<td>45.2%</td>
<td>51.0%</td>
</tr>
<tr>
<td>Funded Status</td>
<td>47.2%</td>
<td>43.5%</td>
</tr>
</tbody>
</table>

- In year 1, liabilities and employer contribution rates are higher under the Proposed Scenario due to an assumed COLA/PBI of 1.75% for all members versus an assumed COLA/PBI of 0.5% for Tier 2 members.
- The ultimate employer normal cost for Tier 3 employees is 9.8% of pay (7.5% DB plus 2.3% DC) in the Proposed Scenario versus 13.2% in the baseline scenario.
- The COLA provision under the “Proposed Scenario” should provide for a more stable mechanism than the current PBI model since the COLA under the Proposed Scenario is not dependent on excess investment income.

The scenarios were based upon data furnished by PSPRS. A 7.50% discount rate was used in the valuation of liabilities and the calculation of contribution rates. All other actuarial assumptions, methods, and plan provisions, valued in this report, are as described in the June 30, 2015 valuation report except as explicitly described in this document.
The following chart illustrates the volatility of the ultimate employer cost rates based on a simulation of future asset returns (see Comment 3 on the following page). The ultimate employer cost rates represent estimated employer contributions once all current active members are replaced by Tier 3 active members (approximately 30 years). The range of contribution rates will be more stable under the proposed structure than under the current structure. This is primarily due to using a fixed COLA model as opposed to an Excess Earnings COLA model. Also note that the 50th percentile (median) rates are slightly lower than the average rates on the prior page because these rates are the geometric average versus the arithmetic average.

<table>
<thead>
<tr>
<th>Stochastic Simulation</th>
<th>Ultimate Employer Cost Structure</th>
<th>Proposed Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>5th Percentile</td>
<td>52.3%</td>
<td>12.5%</td>
</tr>
<tr>
<td>25th Percentile</td>
<td>17.2%</td>
<td>10.6%</td>
</tr>
<tr>
<td>50th Percentile</td>
<td>12.2%</td>
<td>9.2%</td>
</tr>
<tr>
<td>75th Percentile</td>
<td>6.7%</td>
<td>7.6%</td>
</tr>
<tr>
<td>95th Percentile</td>
<td>0.0%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Please review the following important comments regarding the stochastic projections, including questions 8 through 12 in the Appendix.

**Comments**

**Comment 1** — Under the proposed structure, there would now be three Tiers of active members with the following defined benefit characteristics:

<table>
<thead>
<tr>
<th>Tier 1 members</th>
<th>Total Normal Cost</th>
<th>Employer Normal Cost</th>
<th>Employee Normal Cost</th>
<th>Maintenance Of Effort Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hired prior to 1/1/2012 and Hall reverses SB1609</td>
<td>23.83%</td>
<td>16.18%</td>
<td>7.65%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Hired prior to 1/1/2012 and Hall does not reverse SB1609</td>
<td>24.41%</td>
<td>16.76%</td>
<td>7.65%</td>
<td>4.00%</td>
</tr>
</tbody>
</table>

**Comment 2** — Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law. Due to the limited scope of the actuary’s assignment, the actuary did not perform an analysis of the potential range of such future measurements.
Comment 3 — The “Ultimate Cost” volatility chart is based on stochastic simulations of 1,000 trials with a mean return of 7.50% and standard deviation of 9.4%. To the extent that either the mean or standard deviation of the portfolio is different, results will vary. Results should not be relied upon as a prediction of either the exact contribution rate or COLA that can be paid in the future, but rather as a basis for comparison between the scenarios.

Comment 4 — Results in this report present estimates of average contribution rates and average funded status’ for all employers. Results will vary significantly on an employer by employer basis.

Comment 5 — Under the proposed scenario, the estimated COLA is based on regional CPI, with a cap of 2%. For the purposes of this study, we assumed the average annual COLA was 1.75%.

Comment 6 — Under the proposed scenario, PSPRS Tier 3 Hybrid members have a cap on Pensionable Pay of $110,000 increasing with inflation. For the purposes of this study, per the Reason Foundation’s request, we assumed inflation for the pay cap was 1.0% per annum. It should be noted that the results are very sensitive to the assumed increases in the Pay Cap. For example, increasing the pay cap growth assumption from 1% to 2% would increase the normal cost by about 2% of payroll.

Comment 7 — If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

Comment 8 — This report is intended to describe the financial effect of the proposed plan changes. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 9 — Per the document titled “PSPRS Reform Agreement Framework_draft3.doc” 5% of Tier 3 members were assumed to participate in the DC option and 65% of Tier 2 and Tier 3 members were assumed not to pay into Social Security, and therefore participate in the 3% employer Defined Contribution plan.

Comment 10 — A full review of the proposal for compliance with federal, state, or local laws or regulations was out of the scope of this study and not performed.
January 18, 2016 Appendix

This appendix contains questions developed by the Reason Foundation and Senator Lesko related to the GRS Memorandum Dated December 23, 2015. GRS provided answers and added question 14.

1. What is the breakdown of the status quo contribution rates (i.e. Normal Cost vs. UAL cost) for employees and employers?

Based on the June 30, 2015 valuation data, methods, and assumptions (including a change to 7.5% interest rate):

- Employee Normal Cost is 11.65% for all tiers (rate above 7.65% is seen as Maintenance of Effort).
- Employer Normal Cost is 13.71%.
- Employer UAL cost is 31.44%.
- Total Employer cost is 45.15%.

2. What is the breakdown of the status quo contribution rates (i.e. Normal Cost vs. UAL cost) for employees and employers if the Hall case reverses SB1609?

Based on the June 30, 2015 valuation data, methods, and assumptions (including a change to 7.5% interest rate):

- Employee Normal Cost is 7.65% for Tier 1; 11.65% for Tier 2 (rate above 7.65% is seen as Maintenance of Effort).
- Employer Normal Cost is 16.04%.
- Employer UAL cost is 36.68%.
- Total Employer cost is 52.72%.

3. What will be the Normal cost of the proposed reform for employees and employers (assuming Hall does NOT reverse SB 1609)?

The Normal Cost will be different for each tier of members. Under the proposed reform, there would now be 3 Tiers of active members with differing benefits:

- Tier 1 - active members hired prior to January 1, 2012
- Tier 2 - active members hired after January 1, 2012 and prior to January 1, 2017
- Tier 3 - active members hired after January 1, 2017
January 18, 2016 Appendix (Continued)

Based on the June 30, 2015 valuation data, methods, and assumptions (including a change to 7.5% interest rate).

a. Tiers 1/2:
   - Tier 1 and Tier 2 Employee Normal Cost is 11.65% (rate above 7.65% is seen as Maintenance of Effort)
   - Tier 1 - Employer Normal Cost is 16.76%
   - Tier 2 - Employer Normal Cost is 13.2

b. Tier 3:
   - Employee Normal Cost is 7.53%
   - Employer Normal Cost is 9.83% (7.53% DB plus 2.30% DC)

4. What will be the Normal cost of the proposed reform for employees and employers (assuming Hall reverses SB 1609)?

   Based on the June 30, 2015 valuation data, methods, and assumptions (including a change to 7.5% interest rate).

   a. Tiers 1/2:
      - Employee Normal Cost is 7.65% for Tier 1; 11.65% for Tier 2 (rate above 7.65% is seen as Maintenance of Effort).
      - Tier 1 Employer Normal Cost is 16.18%
      - Tier 2 Employer Normal Cost is 13.2

   b. Tier 3:
      - Employee Normal Cost is 7.53%
      - Employer Normal Cost is 9.83% (7.53% DB plus 2.30% DC)

5. Will the proposed reform provide any immediate savings for employers as they hire new employees?

   Yes. Employer Normal Cost for new (Tier 3) members is lower than the Employer Normal Cost for current Tier 1 or 2 members.

   However, the proposed reform includes guaranteed COLA Payments, whereas the current plan needs to meet various hurdles to pay Permanent Benefit Increases. This could lead to increased cost under the proposed reform under certain conditions.

Gabriel Roeder Smith & Company
6. Will the proposed reform lead to reduced contribution rate volatility in an underperforming market scenario?

In general, contribution rates will be less volatile under the proposed scenario. However, if there was an underperforming market scenario where the fund consistently earned less than 9% for several years, the fund would not pay out any PBI under the current structure. This could result in lower overall cost compared to the proposed structure which provides a COLA in every year regardless of the fund performance.

7. Will the proposed change from the current PBI structure to the proposed CPI, capped, COLA change the predictability, or certainty, of future cost of living increases?

Yes. The proposed reform includes guaranteed COLA Payments up to 2%, whereas the current plan requires meeting various hurdles to pay Permanent Benefit Increases.

8. How will the proposed change from the current PBI structure to the proposed CPI, capped, COLA impact the stability of the fund?

The change serves to remove the variability related to PBI – depending on conditions, in some years up to a 4% PBI could be paid at the average level of benefit or conversely, nothing could be paid in other years. Moving to a CPI-based capped COLA will tie the COLA more directly to actual benefits. Historically, perhaps the biggest impact on plan stability has related to the investment return.

9. In reference to the stochastic simulation chart on page 4, how does the proposed reform impact future contribution rate volatility?

Under the proposed structure, there is about a 90% probability that the employer cost will be between 12.5% and 4.1%. Whereas under the current structure, the cost could vary between 52.3% and 0.0%. Therefore, there is a much higher probability the contribution rates will not be as volatile under the proposed structure than they would be under the current structure.

10. In reference to the stochastic simulation chart on page 4, how do the percentiles listed compare to the funds assumed rate of return?

The stochastic simulations of 1,000 trials are based on a mean return of 7.50% (the assumed rate of return) and standard deviation of 9.4%. The 50th percentile should produce returns that average to the current assumed rate of 7.5%.

The 5th percentile would produce returns that average 4.66%
The 25th percentile would produce returns that average 6.26%
The 75th percentile would produce returns that average 8.72%
The 95th percentile would produce returns that average 10.37%
January 18, 2016 Appendix (Continued)

11. In reference to the stochastic simulation chart on page 4, can any of the simulations of future asset returns be compared to past market cycles?

We would expect that within the stochastic simulations of 1,000 trials, there may be certain trials that compare to past market cycles. The simulations are produced randomly and so we could not determine which simulations would compare to past market cycles. However, it is likely that the unfavorable market conditions experienced during 2008 might be analogous to the “1st percentile”.

12. In reference to the stochastic simulation chart on page 4, can GRS run a similar model that shows volatility comparison if the fund continues to achieve an average 5% actuarially smoothed rate of return?

The current 7.5% expected rate of return is a long-term expected return. Current short-term rates may be closer to 5%. Evaluating the proposal using shorter term rates was beyond the scope of this analysis, but could be provided in a supplemental report.

13. Can you explain the “Maintenance of Effort Contribution” referenced in Comment 1? Is this paid by both employees and employers? Is this the same of the SB1609 contribution rate increase to 11.65%?

SB1609 incrementally increased employee contributions from 7.65% to 11.65%, but note that the additional employee contributions above 7.65% do not reduce the employer contribution – rather they serve as “maintenance of effort” to improve funded status.

14. How does the Tier 3 cap on pay impact plan costs?

The reform proposal includes a provision limiting pay for Tier 3 members to $110,000 indexed by CPI. Most Tier 3 members are projected to be impacted by the pay cap by the time they retire. This provision should be considered carefully, so as to be effective and not thrown out as member pay approaches $110,000 in the future. For the purposes of this study, the Reason Foundation requested that a 1% assumption be used for indexing purposes. Different assumptions regarding the indexing of the pay cap will lead to different results. For example, increasing the pay cap growth assumption from 1% to 2% would increase the normal cost by about 2% of payroll.
SUPPLEMENTAL MEMO FROM THE ADMINISTRATOR

At the request of a number of people, I have asked GRS to provide a supplemental graph of stochastic projections for which many are accustomed to seeing. I do this for purposes of shorter term projections than what has been provided in the GRS report. As such, a number of questions may arise for which I hope to provide satisfactory answers below.

First, it is important to understand the facts and assumptions in place for each scenario in order to further understand what has changed when comparing the different scenarios in the graph:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Employee Rate</th>
<th>PBI or COLA</th>
<th>Other Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Scenario (SB1609 reversed)</td>
<td>Tier 1a</td>
<td>1.75% COLA</td>
<td>As prescribed on pages 1 &amp; 2 of GRS Memo</td>
</tr>
<tr>
<td></td>
<td>Tier 1b</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tier 2a</td>
<td>7.65%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tier 2b</td>
<td>7.65% + 4% MOE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tier 3</td>
<td>7.53%</td>
<td></td>
</tr>
</tbody>
</table>

| Proposed Scenario (SB1609 not reversed) | Tier 1a | 1.75% COLA | As prescribed on pages 1 & 2 of GRS Memo |
|                                         | Tier 1b  |             |                |
|                                         | Tier 2a  | 7.65% + 4% MOE |                |
|                                         | Tier 2b  | 7.53%       |                |

| June 30, 2015 (aka “status quo”) | Tier 1a | 2.00% PBI | Current law |
|                                  | Tier 1b | 0.50% PBI |             |
|                                  | Tier 2a | 7.65% + 4% MOE |             |
|                                  | Tier 2b | 7.65% + 4% MOE |             |

| If SB1609 is reversed | Tier 1a | 2.00% PBI | Current law |
|                       | Tier 1b | 7.65%   |             |
|                       | Tier 2a | 7.65% + 4% MOE |             |
|                       | Tier 2b | 7.65% + 4% MOE |             |

For purposes of this table:
- Tier 1a = Members retired on or before July 2011
- Tier 1b = Members retired after July 2011
- Tier 2a = Members hired prior to January 1, 2012 and not yet retired
- Tier 2b = Members hired on or after January 1, 2012
- Tier 3 = New members hired on or after the effective date of reform
Questions that may arise from the table:

- **Why is there a Tier 1a and 1b in your table?**
  When certain parts of SB 1609 were reversed by the *Fields* case in 2014, only those who were retired prior to the effective date of SB1609 were determined to be the class of members effected for which the old PBI mechanism was reinstated (9% investment return, reserve fund for future PBIs, no funding level requirement). These are considered Tier 1a to differentiate them from those who retired after the effective date (Tier 1b).

- **Why is it important to understand this distinction?**
  As mentioned previously, Tier 1a have the old PBI mechanism reinstated for them and Tier 1b fall under the new mechanism created by SB1609 (10.5% investment return, no reserve fund, tiered funding levels). Because of these two different mechanisms, different assumptions need to be applied to how their PBI is projected to be paid out in the future. Based on our actuaries modeling, the projection for Tier 1a is a 2.00% compounded increase in their benefit each year, but the actual could be anywhere between 0% and 4% depending on the investment return. For Tier 1b, the projection is 0.50% compounded each year because of the higher required investment return and the funding level thresholds that must be met. It is important to understand that this 2.00% and 0.50% are not the cost of the PBI, but the projected percentage increase in each member’s benefit.

- **Can you explain further what the maintenance of effort (MOE) is and what it is designed to do?**
  The total cost of funding the pension system is paid by a split between the employee and the employer. For almost the past 20 years prior to 2011, the employee rate was 7.65%. In 2011, SB1609 gradually increased that rate in annual increments to 11.65% today. The MOE is the difference between 7.65% and that increased rate, being 4% today. Without the MOE, any increase in the employee rate would translate into an equal decrease in the employer rate, thereby only shifting the cost to the employee and not have any added effect on the funding status. Therefore, as part of SB1609, the MOE is not allowed to offset the employer rate, but is designed to help increase the funding status at a greater pace.

- **Absent reform, how does the *Hall* case affect Tiers 1 and 2?**
  For those hired before January 1, 2012, the only two changes from SB1609 being considered by the *Hall* case are the increase in the employee contribution rate and the change to the PBI mechanism. Only those tiers affected by that contribution rate or PBI mechanism change will be the only ones who have those changes reversed. It is possible that only one change gets reversed and the other remains intact, but for purposes of these studies it is assumed that both changes get reversed. Members hired on or after January 1, 2012 fall under the provisions of SB1609 and will continue to pay a higher contribution rate and follow the PBI mechanism that has a higher investment return threshold and tiered funding level requirements.

- **If the *Hall* case reverses those provisions of SB1609, what needs to happen to make the members whole?**
  All the MOE received since 2011 for those hired before January 1, 2012 will need to be returned and, for years there were investment returns over 9%, a PBI will need to be paid out to those who retired after July 2011. Doing so will increase employer costs in order to make up the difference for contributions lost and increased benefits being paid out.

- **Why is the projected PBI/COLA in the Proposed Scenarios 1.75% for all tiers?**
  Current reform is proposing to change both PBI mechanisms for Tiers 1 and 2 to be a regional CPI-based COLA capped at 2.00%. Historically, this CPI was been 1.75% annually and will therefore be the number used to project the new increase for all tiers, but will be reviewed and adjusted accordingly as appropriate going forward.
Employer Contribution Rates 2015 2020 2025 2030 2035 2040 Ultimate
Proposed Scenario (if SB1609 is reversed) 51.0% 50.8% 48.7% 46.7% 28.9% 10.9% 9.8%
Proposed Scenario (if SB1609 is not reversed) 51.0% 52.0% 50.3% 48.5% 30.4% 11.1% 9.8%
June 30, 2015 Valuation 45.2% 43.2% 42.2% 41.5% 29.6% 13.2% 13.2%
If SB 1609 is reversed 52.7% 51.5% 51.0% 49.1% 33.9% 13.2% 13.2%

Median Funded Rate 2015 2020 2025 2030 2035 2040 Ultimate
Proposed Scenario (if SB1609 is reversed) 43.5% 50.9% 64.0% 77.4% 93.0% 102.4% 100.0%
Proposed Scenario (if SB1609 is not reversed) 43.5% 53.9% 68.4% 83.7% 101.7% 112.9% 100.0%
June 30, 2015 Valuation 47.1% 56.1% 68.3% 80.7% 93.5% 99.7% 100.0%
If SB 1609 is reversed 42.5% 51.5% 65.3% 79.0% 93.0% 99.7% 100.0%
Questions that may arise from the graph:

- **What can be attributed to the large employer rate increase between the June 30, 2015 and the If SB1609 is reversed scenarios?**
  The largest component of that increase will be due to the projected PBI payout changing from 0.50% to 2.00% for Tiers 1b and 2a.

- **Why is the employer rate for the Proposed Scenario (if SB1609 is not reversed) higher than the Proposed Scenario (if SB1609 is reversed)?**
  As mentioned previously and shown in the table, if SB1609 is reversed then the employee contribution rate reverts to 7.65% for Tier 2a with a corresponding return of their MOE going back to 2011 (some members in Tier 1b will also receive a return of their MOE). It seems counterintuitive to think losing those extra contributions will actually reduce the employer rate under the Proposed Scenario (if SB1609 is reversed).
  However, remember that the MOE does not affect the employer contribution rate, so the elimination of those additional contributions does not play into the difference between the employer rates for these two proposed scenarios because both scenarios are only utilizing the 7.65% employee rate.

  So what is causing it? The actuaries have to make an assumption, based on experience, of how many members might quit each year and apply for a refund of their contributions. Under Proposed Scenario (if SB1609 is not reversed), if an employee quits and applies for a refund, we have to return his contributions that were made in the amount of 11.65% of his salary. If the contribution rate reverts to 7.65% in Proposed Scenario (if SB1609 is reversed), then we only have to refund 7.65% of his salary. Having to return more to the member at 11.65% means the employer has to make up more for those lost contributions that are refunded, thereby increasing the employer rate. So, while the MOE doesn’t affect the employer contribution rate when received, it does affect it when refunded.

  To illustrate the effects of MOE and the trade-off of a lower employer contribution rate in Proposed Scenario (if SB1609 is reversed), you can see that the funding level increases faster under the Proposed Scenario (if SB1609 is not reversed).

- **Why do both the proposed scenarios appear more expensive than the “status quo”?**
  One of the main purposes for this reform is to correct the flawed PBI mechanism where outperforming investment returns actually serve to increase the liabilities instead of pay them down. In order to change that, it is being taken to the ballot to allow a constitutional change for only that benefit. To withstand legal scrutiny, there are a number of criteria that must be met, one being that a contingent benefit is being replaced with a guaranteed benefit. The PBI is contingent on investment performance and the COLA is guaranteed based on CPI.

  So, changing the mechanism changes the assumption to where any savings from those who were being projected at a 2.00% payout being reduced to 1.75% is offset by those at 0.50% being raised to 1.75%. While this may be more expensive in the short-term, getting rid of the flawed mechanism will produce greater stability and confidence in our projections by reducing the volatility created by the uncertainty of that flaw.

  Additionally, as stated at the top of page 3 of the GRS memo, “It should also be noted that potential savings will occur gradually over time as current active members are replaced by members who receive the new tier of benefits.” And I would like to add “…and the unfunded liability is paid off.” It is important to note that the unfunded liability is a debt that must still be paid. So, the value of fixing the flawed PBI may not come through until later if looking at a fiscal analysis of the total System now. Therefore, the most appropriate way to consider the merits of the proposed changes is by looking at the changes to new hires.
State of Arizona
House of Representatives
Fifty-second Legislature
Second Regular Session
2016

HB 2643

Introduced by
Representative Olson

AN ACT

AMENDING SECTIONS 38-843.05, 38-847, 38-849 AND 38-891.01, ARIZONA REVISED STATUTES; RELATING TO PUBLIC RETIREMENT SYSTEMS.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 38-843.05, Arizona Revised Statutes, is amended to read:

38-843.05. Retired members; return to work; employer contributions
A. An employer shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee of the employer of an eligible group, unless the retired member is required to participate in another state retirement system and the retired member returned to work before July 20, 2011. For the purposes of this subsection, "returns to work in any capacity" includes a retired member who returns to work and is ineligible for benefits pursuant to section 38-849, subsection E.

B. The alternate contribution rate shall be equal to that portion of the INDIVIDUAL EMPLOYER'S total required contribution that is applied to the amortization of the unfunded actuarial accrued liability for the fiscal year beginning July 1, based on the system's actuary's calculation of the total required contribution for the preceding fiscal year ended on June 30. The alternate contribution rate shall be applied to the compensation, gross salary or contract fee of a retired member who meets the requirements of this section.

C. The alternate contribution rate shall not be less than eight percent in any fiscal year.

D. All contributions made by the employer and allocated to the fund are irrevocable and shall be used as benefits under this article or to pay the expenses of the system. Payments made pursuant to this section by employers become delinquent after the due date prescribed in section 38-843, subsection D, and thereafter shall be increased by interest from and after that date until payment is received by the system.

E. An employer of a retired member shall immediately notify the local board after the employment of a retired member and shall submit any reports, data, paperwork or materials that are requested by the board or the local board that are necessary to determine the compensation, gross salary or contract fee associated with a retired member who returns to work or to determine the function, use, efficacy or operation of the return to work program.

Sec. 2. Section 38-847, Arizona Revised Statutes, is amended to read:

38-847. Local boards
A. The administration of the system and responsibility for making the provisions of the system effective for each employer are vested in a local board. The department of public safety, the Arizona game and fish department, the department of emergency and military affairs, the university of Arizona, Arizona state university, northern Arizona university, each county sheriff's office, each county attorney's office, each county parks department, each municipal fire department, each eligible fire district, each community college district, each municipal police department, the department
of law, the department of liquor licenses and control, the Arizona department of agriculture, the Arizona state parks board, each Indian reservation police agency and each Indian reservation fire fighting agency shall have a local board. A nonprofit corporation operating pursuant to sections 28-8423 and 28-8424 shall have one local board for all of its members. Each local board shall be constituted as follows:

1. For political subdivisions or Indian tribes, the mayor or chief elected official or a designee of the mayor or chief elected official approved by the respective governing body as chairman, two members elected by secret ballot by members employed by the appropriate employer and two citizens, one of whom shall be the head of the merit system, or the head's designee from among the other members of the merit system, if it exists for the group of members, appointed by the mayor or chief elected official and with the approval of the governing body of the city or the governing body of the employer. The appointed two citizens shall serve on both local boards in a city or Indian tribes where both fire and police department employees are members.

2. For state agencies and nonprofit corporations operating pursuant to sections 28-8423 and 28-8424, two members elected by secret ballot by the members employed by the appropriate employer and three citizens appointed by the governor. Each state agency local board shall elect a chairman.

3. For fire districts organized pursuant to section 48-804, the secretary-treasurer as chairman, THE CHAIRPERSON OF THE FIRE DISTRICT GOVERNING BOARD OR THE CHAIRPERSON'S DESIGNEE, two members elected by secret ballot by members employed by the fire district and two citizens appointed by the secretary-treasurer CHAIRPERSON OF THE FIRE DISTRICT GOVERNING BOARD, one of whom is a resident of the fire district and one of whom has experience in personnel administration but who is not required to be a resident of the fire district.

4. For joint powers authorities organized pursuant to section 48-805.01, the joint powers authority board chairman or a designee approved by the governing body, two members elected by secret ballot by members employed by the joint powers authority and two citizens, one of whom is a resident of one of the partner entities and one of whom has experience in personnel administration but who is not required to be a resident of a partner entity.

B. On the taking effect of this system for an employer, the appointments and elections of local board members shall take place with one elective and appointive local board member serving a term ending two years after the effective date of participation for the employer and other local board members serving a term ending four years after the effective date. Thereafter, every second year, and as a vacancy occurs, an office shall be filled for a term of four years in the same manner as previously provided.

C. Each local board shall be fully constituted pursuant to subsection A of this section within sixty days after the employer's effective date of participation in the system. If the deadline is not met, on the written
request of any member who is covered by the local board or the employer to
the board of trustees, the board of trustees may appoint all vacancies of the
local board pursuant to subsection A of this section and designate whether
each appointive position is for a two year or four year term. If the board
of trustees cannot find individuals to serve on the local board who meet the
requirements of subsection A of this section, the board of trustees may
appoint individuals to serve as interim local board members until qualified
individuals are appointed or elected. Each local board shall meet at least
twice a year. Each member of a local board, within ten days after the
member's appointment or election, shall take an oath of office that, so far
as it devolves on the member, the member shall diligently and honestly
administer the affairs of the local board and that the member shall not
knowingly violate or willingly permit to be violated any of the provisions of
law applicable to the system.

D. Except as limited by subsection E of this section, a local board
shall have such powers as may be necessary to discharge the following duties:

1. To decide all questions of eligibility for membership, service
credits and benefits and determine the amount, manner and time of payment of
any benefits under the system.

2. To prescribe procedures to be followed by claimants in filing
applications for benefits.

3. To make a determination as to the right of any claimant to a
benefit and to afford any claimant or the board of trustees, or both, a right
to a rehearing on the original determination. Except as otherwise required
by law, unless all parties involved in a matter presented to the local board
for determination otherwise agree, the local board shall commence a hearing
on the matter within ninety days after the date the matter is presented to
the local board for determination. If a local board fails to commence a
hearing as provided in this paragraph, on a matter presented to the local
board for determination, the relief demanded by the party petitioning the
local board is deemed granted and approved by the local board. The granting
and approval of this relief is considered final and binding unless a timely
request for rehearing or appeal is made as provided in this article, unless
the board of trustees determines that granting the relief requested would
violate the internal revenue code or threaten to impair the system's status
as a qualified plan under the internal revenue code. If the board of
trustees determines that granting the requested relief would violate the
internal revenue code or threaten to impair the system's status as a
qualified plan, the board of trustees may refuse to grant the relief by
issuing a written determination to the local board and the party petitioning
the local board for relief. The decision by the board of trustees is subject
to judicial review pursuant to title 12, chapter 7, article 6.

4. To request and receive from the employers and from members such
information as is necessary for the proper administration of the system and
action on claims for eligibility for membership and benefits, and to forward
such information to the board of trustees.
5. To distribute, in such manner as the local board determines to be appropriate, information explaining the system received from the board of trustees.

6. To furnish the employer, the board of trustees and the legislature, on request, with such annual reports with respect to the administration of the system as are reasonable and appropriate.

7. To receive and review the actuarial valuation of the system for its group of members.

8. To receive and review reports of the financial condition and of the receipts and disbursements of the fund from the board of trustees.

9. To appoint medical boards as provided in section 38-859.

10. To sue and be sued to effectuate the duties and responsibilities set forth in this article.

E. A local board shall have no power to add to, subtract from, modify or waive any of the terms of the system, change or add to any benefits provided by the system or waive or fail to apply any requirement of eligibility for membership or benefits under the system. Notwithstanding any limitations periods imposed in this article, including subsection D, paragraph 3 and subsections G and H of this section, if the board of trustees determines a local board decision violates the internal revenue code or threatens to impair the system's status as a qualified plan under the internal revenue code, the local board's decision is not final and binding and the board of trustees may refrain from implementing or complying with the local board decision.

F. A local board, from time to time, shall establish and adopt such rules as it deems necessary or desirable for its administration. All rules and decisions of a local board shall be uniformly and consistently applied to all members in similar circumstances. If a claim or dispute is presented to a local board for determination but the local board has not yet adopted uniform rules of procedure for adjudication of the claim or dispute, the local board shall adopt and use the model uniform rules of local board procedure that are issued by the board of trustees' fiduciary counsel to adjudicate the claim or dispute.

G. Except as otherwise provided in this article, any action by a majority vote of the members of a local board that is not inconsistent with the provisions of the system and the internal revenue code shall be final, conclusive and binding on all persons affected by it unless a timely application for a rehearing or appeal is filed as provided in this article. No later than twenty days after taking action, the local board shall submit to the board of trustees the minutes from the local board meeting that include the name of the member affected by its decision, a description of the action taken and an explanation of the reasons and all documents submitted to the local board for the action taken, including the reports of a medical board. The board of trustees may not implement and comply with any local board action that does not comply with the internal revenue code or that
threatens to jeopardize the system's status as a qualified plan under the internal revenue code.

H. A claimant or the board of trustees may apply for a rehearing before the local board within the time periods prescribed in this subsection, except that if a decision of a local board violates the internal revenue code or threatens to jeopardize the system's status as a qualified plan under the internal revenue code, no limitation period for the board of trustees to seek a rehearing of a local board decision applies. An application for a rehearing shall be filed in writing with a member of the local board or its secretary within sixty days after:

1. The applicant-claimant receives notification of the local board's original action by certified mail, by attending the meeting at which the action is taken or by receiving benefits from the system pursuant to the local board's original action, whichever occurs first.

2. The applicant-board of trustees receives notification of the local board's original action as prescribed by subsection G of this section by certified mail.

I. A hearing before a local board on a matter remanded from the superior court is not subject to a rehearing before the local board.

J. Decisions of local boards are subject to judicial review pursuant to title 12, chapter 7, article 6.

K. When making a ruling, determination or calculation, the local board shall be entitled to rely on information furnished by the employer, a medical board, the board of trustees, independent legal counsel or the actuary for the system.

L. Each member of a local board is entitled to one vote. A majority is necessary for a decision by the members of a local board at any meeting of the local board.

M. The local board shall adopt such bylaws as it deems desirable. The local board shall elect a secretary who may, but need not, be a member of the local board. The secretary of the local board shall keep a record and prepare minutes of all meetings in compliance with chapter 3, article 3.1 of this title and forward the minutes and all necessary communications to the board of trustees as prescribed by subsection G of this section.

N. The fees of the medical board and of the local board's independent legal counsel and all other expenses of the local board necessary for the administration of the system shall be paid by the employer and not the board of trustees or system at such rates and in such amounts as the local board shall approve. Legal counsel that is employed by the local board is independent of the employer and any employee organization or member and owes its duty of loyalty only to the local board in connection with its representation of the local board.

O. The local board shall issue directions to the board of trustees concerning all benefits that are to be paid from the employer's account pursuant to the provisions of the fund. The local board shall keep on file,
in such manner as it may deem convenient or proper, all reports from the
board of trustees and the actuary.

P. The local board and the individual members of the local board shall
be indemnified from the assets of the employer for any judgment against the
local board or its members, including attorney fees and costs, arising from
any act, or failure to act, made in good faith pursuant to the provisions of
the system, including expenses reasonably incurred in the defense of any
claim relating to the act or failure to act.

Sec. 3. Section 38-849, Arizona Revised Statutes, is amended to read:

38-849. Limitations on receiving pension; violation;
classification; reemployment after severance;
reinstatement of service credits; reemployment of
retired member or member with a disability;
definition

A. If a member is convicted of, or discharged because of, theft,
embezzlement, fraud or misappropriation of an employer's property or property
under the control of the employer, the member shall be subject to restitution
and fines imposed by a court of competent jurisdiction. The court may order
the restitution or fines to be paid from any payments otherwise payable to
the member from the retirement system.

B. A person who knowingly makes any false statement or who falsifies
or permits to be falsified any record of the system with an intent to defraud
the system is guilty of a class 5 felony. If any change or error in the
records results in any member or beneficiary receiving from the system more
or less than the member or beneficiary would have been entitled to receive
had the records been correct, the local board shall correct such error, and
as far as practicable shall adjust the payments in such manner that the
actuarial equivalent of the benefit to which such member or beneficiary was
correctly entitled shall be paid. If a member is convicted of a crime
specified in this subsection, section 13-713 applies.

C. If a member who received a severance refund on termination of
employment pursuant to section 38-846.02 becomes reemployed with the same
employer within two years after the former member's termination date, the
member may have forfeited credited service attributable to service rendered
during a prior period of service as an employee restored on satisfaction of
each of the following conditions:

1. The member files with the system a written application for
reinstatement of forfeited credited service within ninety days after again
becoming an employee.

2. The retirement fund is paid the total amount previously withdrawn
pursuant to section 38-846.02 plus compound interest from the date of
withdrawal to the date of repayment. Interest shall be computed at the rate
of nine percent for each year compounded each year from the date of
withdrawal to the date of repayment. Forfeited credited service shall not be
restored until complete payment is received by the fund.
3. The required payment is completed within one year after returning
to employee status.

D. If a member who received a severance refund on termination of
employment, as provided in section 38-846.02, is subsequently reemployed by
an employer, the member's prior service credits shall be cancelled and
service shall be credited only from the date the member's most recent
reemployment period commenced. However, a present active member of the
system who forfeited credited service, received a severance refund pursuant
to section 38-846.02 and becomes reemployed with the same employer two years
or more after the member's termination date or becomes reemployed with
another employer may elect to redeem any part of that forfeited credited
service by paying into the system any amounts required pursuant to this
subsection. A present active member who elects to redeem any part of
forfeited credited service for which the member is deemed eligible by the
board shall pay into the system the amounts previously paid or transferred to
the member as a severance refund plus an amount, computed by the system's
actuary that is necessary to equal the increase in the actuarial present
value of projected benefits resulting from the redemption calculated using
the actuarial methods and assumptions prescribed by the system's actuary. On
satisfaction of this obligation the member's prior service credits shall be
reinstated.

E. If a retired member becomes reemployed in any capacity by the
employer from which the member retired before one year from the date of
retirement or in the same position at any time following retirement:

1. The following apply:

   (a) Within ten days after the retired member is reemployed, the local
       board shall advise the system in writing of the retired member's
       reemployment.

   (b) The system shall not make pension payments to the retired member
during the period of reemployment.

   (c) Employee contributions shall not be made on the retired member's
       account, nor shall any service be credited during the period of reemployment.

On subsequent termination of employment by the retired member, the retired
member is entitled to receive a pension based on the member's service and
compensation before the date of the member's reemployment. The employer
shall pay the alternate contribution rate pursuant to section 38-843.05.

2. Paragraph 1, subdivisions (a) and (b) of this subsection do not
   apply if either:

   (a) The retired member becomes reemployed after sixty consecutive days
       from the member's retirement date as a result of participating in an open
       competitive new hire process for an entry level, nonsupervisory position,
       except if the retired member is hired for the same position.

   (b) The retired member is hired as a fire inspector or arson
       investigator.

F. If a retired member is assigned voluntary duties acting as a
limited authority peace officer, pursuant to the Arizona peace officer
standards and training board rules, employee contributions shall not be made on the retired member's account, and any service shall not be credited during the period of reemployment. The employer shall not pay the alternate contribution rate pursuant to section 38-843.05.

G. If after one year from the date of retirement a retired member becomes reemployed by the employer from which the member retired in a position other than the same position from which the member retired, employee contributions shall not be made on the retired member's account, and any service shall not be credited during the period of reemployment. The employer shall pay the alternate contribution rate pursuant to section 38-843.05.

H. At any time following retirement, if the retired member becomes employed by an employer, other than the employer from which the member retired, in a position ordinarily filled by an employee of an eligible group, employee contributions shall not be made on the retired member's account, and any service shall not be credited during the period of reemployment. The employer shall pay the alternate contribution rate pursuant to section 38-843.05.

I. If a member who retired under an accidental or ordinary disability becomes reemployed as an employee of an eligible group, section 38-844 applies and a determination shall be made by the local board as to whether subsection E, F, G or H of this section applies.

J. The local board shall review all reemployment determinations and voluntary assignments as described in subsection F of this section. If the local board or the system is not provided the necessary information required by the system to make a reemployment determination, the local board and the system shall suspend pension payments until information is received and a determination is made regarding whether the reemployment meets the requirements of subsection E, F, G, H or I of this section.

K. A person who defrauds the system or who takes, converts, steals or embezzles monies owned by or from the system and who fails or refuses to return the monies to the system on the board's written request is subject to civil suit by the system in the superior court in Maricopa county. On entry of an order finding the person has defrauded the system or taken, converted, stolen or embezzled monies owned by or from the system, the court shall enter an order against that person and for the system awarding the system all of its costs and expenses of any kind, including attorney fees, that were necessary to successfully prosecute the action. The court shall also grant the system a judicial lien on all of the nonexempt property of the person against whom judgment is entered pursuant to this subsection in an amount equal to all amounts awarded to the system, plus interest at the rate prescribed by section 44-1201, until all amounts owed are paid to the system.

L. Notwithstanding any other provision of this article, the board may offset against any benefits otherwise payable by the system to an active or retired member or survivor any court ordered amounts awarded to the board and system and assessed against the member or survivor.
M. NOTWITHSTANDING ANY OTHER PROVISION OF THIS ARTICLE, A MEMBER WHO RETIRES HAVING MET ALL OF THE QUALIFICATIONS FOR RETIREMENT AND WHO SUBSEQUENTLY BECOMES AN ELECTED OFFICIAL, BY ELECTION OR APPOINTMENT, IS NOT CONSIDERED REEMPLOYED BY THE SAME EMPLOYER.

M. N. For the purposes of this section, "same position" means a position in which the member performs substantially similar duties that were performed and exercises substantially similar authority that was exercised by the retired member before retirement.

Sec. 4. Section 38-891.01, Arizona Revised Statutes, is amended to read:

38-891.01. Retired member; return to work; employer contributions

A. An employer shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee of the employer in a designated position. This section applies to a retired member who has been retired for more than twelve consecutive months.

B. The alternate contribution rate shall be equal to that portion of the INDIVIDUAL EMPLOYER'S total required contribution that is applied to the amortization of the unfunded actuarial accrued liability for the fiscal year beginning July 1, based on the fund's actuary's calculation of the total required contribution for the preceding fiscal year ended on June 30. The alternate contribution rate shall be applied to the compensation, gross salary or contract fee of a retired member who meets the requirements of this section.

C. The alternate contribution rate shall not be less than six percent in any fiscal year.

D. All contributions made by the employer and allocated to the fund established by section 38-882 are irrevocable and shall be used as benefits under this article or to pay the expenses of the plan. Payments made pursuant to this section by employers become delinquent after the due date prescribed in section 38-891, subsection C, and thereafter shall be increased by interest from and after that date until payment is received by the plan.

E. An employer of a retired member shall submit any reports, data, paperwork or materials that are requested by the board and that are necessary to determine the compensation, gross salary or contract fee associated with a retired member who returns to work or to determine the function, use, efficacy or operation of the return to work program.
### 2015 PSPRS Performance Audit and Sunset Review
Implementation and Tracking log of Recommendations
24 February 2016

**Key:** [In Process] [Updated] [Completed]

#### 1 Plans’ assets have not kept pace with estimated pension obligations

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>PSPRS Response</th>
<th>Actions/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
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#### 2 Changes in calculating and awarding annual benefit increases would help system plans’ sustainability

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>PSPRS Response</th>
<th>Actions/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.1.</strong></td>
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<tr>
<td>To ensure the plans’ permanent benefit increase structures are sustainable, the System should take the lead and collaborate with stakeholders to identify changes that are needed and develop solutions. In developing solutions, the System will have to pursue legislative changes to implement them since each plan’s benefit increase structure is specified in statute. The System will also need to determine if the solutions should apply to all members or members hired or retired on or after a specific date, and consider whether a constitutional change might be warranted (see Recommendations 2.2 and 2.3, page 35). In collaboration with stakeholders, the System should:</td>
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<tr>
<td><strong>Response:</strong></td>
<td><strong>SB1428, signed by the Governor on 2/16, is the culmination of multiple stakeholder meetings over the past year or more to fix the current structural issues in the reinstated PBI mechanism along with creating a more sustainable new tier going forward. Therefore, while some recommendations from the Attorney General were considered, and even adopted as part of this reform, others were not due to the nature of the discussions and what was desired by the stakeholders. Unfortunately, although the Board of Trustees made great strides to change the PBI mechanism for EORP and CORP, those efforts were not pursued by the Legislature at this time. Therefore, only the PSPRS plan will be affected by these reform measures, but it is understood that further reform measures for EORP and CORP will be addressed as early as next year. Individual responses, as appropriate, are given below.</strong></td>
<td></td>
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<tr>
<td><strong>2.1a</strong></td>
<td>Determine whether a higher funded status for each plan should be required before providing a benefit increase</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td><strong>2.1b</strong></td>
<td>Determine whether a simple instead of a compound structure may be more sustainable for its plans</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td><strong>2.1c</strong></td>
<td>Consider whether it should link its permanent benefit increases to the Consumer Price Index, and if so, whether it should provide full inflation protection</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>2.1d</td>
<td>Consider changing its permanent benefit increase structure for the PSPRS plan and CORP to be based on the funded status of individual employers instead of each plan’s overall aggregate funded status</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. There are a number of practices based on aggregate numbers. Changing the PBI structure to be based on individual employer funded levels will be considered along with those other practices.</td>
</tr>
<tr>
<td>2.1e</td>
<td>Consider whether increases for all three plans should be applied to a certain amount of a member’s pension benefit, such as the first $18,000</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>2.1f</td>
<td>Consider changing the EORP benefit increase formula to be based on asset value similar to the PSPRS plan and CORP, instead of retired members’ estimated pension obligations</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>2.1g</td>
<td>Consider modifying the PSPRS plan’s permanent benefit increase structure to be based on an individual member’s pension benefit</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>2.1h</td>
<td>Identify other necessary changes, such as basing benefit increases on long-term investment performance instead of a 1-year result, or consider whether benefit increases should be eliminated.</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. We will consider basing benefit increases on long-term investment performance instead of a 1-year result, but do not think eliminating benefit increases altogether is appropriate.</td>
</tr>
<tr>
<td>2.2</td>
<td>Once solutions have been decided upon, the System and stakeholders should determine if the changes should apply only to members who are hired or retire after a specific date. If so, the System should pursue the</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
</tbody>
</table>
### 2.3
The System should consider whether pursuing a ballot initiative to amend Arizona’s Constitution would be warranted to make changes to the benefit increase structures for all three plans’ members. Depending on how an amendment is worded, it could supersede previous legal decisions. If considering an amendment, the System and stakeholders should ensure that this amendment is specific to the System plans’ permanent benefit increases to ensure members’ base pension benefits are not impacted.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Complete. SB1429 allows for this pension reform to be included in a special election and SCR1019 has been transmitted to the Secretary of State, which allows for a constitutional change for the pension reform.

### 2.4
Throughout the process of developing solutions for the plans’ benefit increase structures, the System should ensure it provides the necessary training or informational materials to ensure stakeholders and the public understand the purpose and impact of the proposed changes.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Now that the bill has been signed, efforts have begun to develop an information and training program to communicate those changes.

### 2.5
The System should ensure that its actuarial assumptions appropriately include the estimated costs for its permanent benefit increases when conducting the System plans’ annual valuations by:

#### 2.5a
Conducting an audit of its actuary as soon as possible.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Our internal governance policies state that “an actuarial audit or equivalent is

This will be budgeted for fiscal 2016-17.
conducted at least every seven (7) years.” Three actuarial audits or equivalents were performed between 2005 and 2009, the last being performed by our current actuaries as part of their new engagement that year. In consultation with those actuaries, and accepted by the Board of Trustees’ Operations, Governance Policy and Audit Committee, we agreed it would be best to wait until the Hall case is determined before conducting the next actuarial audit. It is our understanding and hope that the Hall case will be determined early enough to incorporate any necessary retro payments and return of contributions in this fiscal year if the Superior Court ruling is upheld. If so, performing the next actuarial audit as of June 30, 2016 will still be in compliance with our internal policies.

### 2.5b

**Developing and implementing procedures for ensuring the actuarial audits’ recommendations are reviewed and appropriately implemented.**

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Once the actuarial audit is concluded, we will develop procedures to ensure appropriate recommendations are implemented.

### 3 Additional actions necessary to improve system plans’ financial condition and long-term sustainability

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>PSPRS Response</th>
<th>Actions/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3.1</strong> The System should develop and implement a funding improvement strategy. This funding improvement strategy will need to be at the participating-employer level for the PSPRS plan and CORP, but at the plan level for EORP. In developing this strategy, the System should review</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. We have already discussed the need for a funding improvement strategy with employer stakeholders and will be working with them to develop it. We will review Rhode Island’s funding</td>
<td>As part of pension reform, an advisory committee is statutorily being created with equal representation by members and employers to provide guidance to the Board of Trustees on a number of issues. This funding improvement strategy and all the elements therein will be included as one of those issues.</td>
</tr>
</tbody>
</table>
and incorporate key elements from Rhode Island’s funding improvement strategy that may reasonably help increase plans’ funded statuses. improvement strategy and incorporate those key elements that may reasonably help increase an individual plan’s funded status.

| 3.2 | The funding improvement strategy the System develops should consider: |  
| 3.2a | Establishing the funded status level at which its plans should be considered at-risk, and work with its actuary to determine what would be appropriate. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.2b | Requiring annual certification of the at-risk funded status. This could be done as a part of the annual actuarial valuations performed by the System’s actuary | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.2c | Specifying who must be notified when a plan is certified to be at-risk | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.2d | Posting a notice of the at-risk status on its Web site | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.2e | Establishing the specific actions that can be taken when a plan or plan employer is determined to be at-risk, including a requirement that the System review and approve the actions. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.2f | Identifying who is responsible for the various actions, including the employer, an actuary, or system administrator. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.2g | Establishing the amount of improvement in funded status that should be achieved. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.2h | Determining time frames for completing the various actions, including an overall time frame for improvement in a plan’s funded status. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. See response to 3.1 above. |
| 3.3 | Once the System has developed a funding improvement strategy, to provide greater leverage, the System should pursue legislation to incorporate the requirements related to the funding improvement strategy and its various components within its statutes. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. We will compare and contrast which elements are most appropriate for statute as some elements may need some flexibility to where a policy is more appropriate. We will seek legislation, coupled with policy, to ensure the most effective strategy is followed. | See response to 3.1 above. |
| 3.4 | The System should work with the PSPRS plan and CORP employers and local boards, and other stakeholders, such as professional associations for firefighters or police, to explore the feasibility of offering multiple benefit options. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. | Complete. It is the consensus of the stakeholders that this is NOT something they want to pursue. |
| 3.5 | If the System decides to offer a limited number of pension benefit options, it should take the following actions: | | |
| 3.5a | Determine the specific pension options that should be available. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. | Complete. See response to 3.4 above. |
| 3.5b | Determine the specific times and conditions under which an employer can change its options. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. | Complete. See response to 3.4 above. |
| 3.5c | Seek the necessary changes to the PSPRS plan and CORP laws to allow for employers to select options. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. | Complete. See response to 3.4 above. |
| 3.5d | Develop and implement training materials on the various pension benefit options and their costs so that PSPRS plan and CORP employers can make informed decisions about which benefit options would be the most appropriate. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. | Complete. See response to 3.4 above. |
| 3.6 | The System should develop and | The finding of the Auditor General is | Complete. The first training session was conducted on |
provide educational materials to PSPRS plan employers explaining how unusually large overtime pay increases the risk of generating unfunded liabilities. The System could work with the PSPRS plan’s actuary to create and include in communications to plan employers, such as newsletters and retirement manuals, an explanation and examples of how compensation practices like unusually large overtime usage can generate unfunded liabilities for participating employers.

| 3.7 | The System should adopt practices similar to those in peer public pension plans to ensure that contributions are correct, including: |
| 3.7a | Establishing formal, written policies and procedures for system staff to flag and document any abnormal contributions that may indicate abnormal wage increases or contribution errors. These procedures should detail which staff will be responsible for completing these tasks. |
| | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Informal, unwritten procedures are already in place so we will make sure they are formally written and reviewed in accordance with our annual policies and procedures process. |
| Complete. |
| 3.7b | Establishing formal, written policies and procedures for system staff to investigate flagged contributions. These procedures should detail the necessary steps and documentation for any investigation as well as which staff will be responsible for conducting these investigations. |
| | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Informal, unwritten procedures are already in place so we will make sure they are formally written and reviewed in accordance with our annual policies and procedures process. |
| Complete. |
| 3.7c | Developing and implementing written policies and procedures for conducting regular audits of participating employers for compliance in reporting wages and contributions. |
| | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. This should be something that can be incorporated into the GASB 68 census data audits or we can go out to bid for a private firm to audit these employers on this specific issue. |
3.8 To ensure that the EORP has sufficient assets to cover its estimated pension obligations, the Legislature should consider revising A.R.S. §38-810 to allow the Board to annually establish contribution rates or consider increasing its annual appropriations over time. | No response needed from PSPRS

3.9 The System should continue its efforts to provide additional training to employers and local boards. In conducting such training, the System should ensure that employers and local board members understand the associated costs and effects of certain benefit decisions, such as long-term disability approvals and benefit calculations, as well as the significance of their individual funded status. | The finding of the Auditor General is agreed to and the audit recommendation will be implemented. We are already doing this to some degree in our Local Board Training program formally adopted by the Board of Trustees in 2008. We will review that material and expand as appropriate. | Complete. The first training session was conducted on 2/9.

**Sunset Factor Recommendations**

**SS 1 The System should take additional actions to improve the system plans’ financial condition and long-term sustainability**

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>PSPRS Response</th>
<th>Actions/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SS 1.a</td>
<td>Train IT staff on the roles and responsibilities of its updated disaster recovery plan.</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. This has already been completed.</td>
</tr>
<tr>
<td>SS 1.b</td>
<td>Develop processes for reviewing, approving, and implementing its IT policies.</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. This has already been completed.</td>
</tr>
<tr>
<td>SS 1.c</td>
<td>Implement additional controls on its hosted Web site, such as encryption technologies, to prevent unauthorized access of confidential system information.</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Just to clarify for the public, the hosted website referred to is for Board of Trustee meeting material only. All personally identifiable and other confidential membership information and material is hosted internally and</td>
</tr>
</tbody>
</table>
very secure. We have received assurance from the third party host that this website will be made secure before the end of October.

SS 2 The Board and System should enhance its internal audit function by:

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>PSPRS Response</th>
<th>Actions/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SS 2.a</td>
<td>Revising the System’s internal audit charter to ensure internal and external assessments are conducted and scheduling an external assessment of the internal audit function</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Internal Audit and Compliance Officer prepared an internal review of the IIA standards and how they are addressed at PSPRS for the Auditor General as part of this review. We will incorporate this review into a self-assessment review and expand as needed. We will also schedule an external review for this fiscal year.</td>
</tr>
<tr>
<td>SS 2.b</td>
<td>Requiring that the internal auditors disclose any conflicts of interest and their appropriate mitigation to the Operations, Governance Policy and Audit Committee.</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>SS 2.c</td>
<td>Periodically reviewing its internal audit charter, including requiring internal auditors to regularly brief the Board on the purpose, authority, and responsibility of the internal audit function according to the charter. In addition, the Board should also amend the internal audit charter to require these activities;</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented. In March of 2012, the Internal Audit Officer, in conjunction with audit partner from our external audit firm, made a presentation of the roles of Internal Audit, External Audit and the Audit Committee. This has not been updated since then; however, there</td>
</tr>
<tr>
<td>SS 2.d</td>
<td>Developing and implementing policies and procedures to guide internal audit function</td>
<td>The finding of the Auditor General is not agreed to, but the recommendation will be implemented. We have established policies and procedures, but agree they are not sufficiently documented. We will include this documentation as part of the Internal Audit and Compliance plan for the current Fiscal Year.</td>
</tr>
</tbody>
</table>

### SS 3

**To enhance its processes for addressing members’ issues, the System should:**

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>PSPRS Response</th>
<th>Actions/Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SS 3.a</td>
<td>Develop and implement formal, written policies and procedures for handling member communications to ensure that system staff provide uniform treatment to members. These policies and procedures should define what member communications should be documented and tracked</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>SS 3.b</td>
<td>Develop and implement a central record that details when members’ issues are received, the nature of the issue, the system staff members who handled the issue and when, and how the issue was resolved</td>
<td>The finding of the Auditor General is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>SS 3.c</td>
<td>Develop and implement procedures</td>
<td>The finding of the Auditor General is</td>
</tr>
<tr>
<td>Task</td>
<td>Recommendation</td>
<td>PSPRS Response</td>
</tr>
<tr>
<td>------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>1.c</td>
<td>Gallagher recommends that the System consider including consecutive calendar year performance for the most recent ten years, as well as the inception to date returns in its quarterly investment reporting.</td>
<td>The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>1.h1</td>
<td>Given the poor performance of the overall real estate portfolio, in particular the Joint Venture investments, Gallagher recommends that the System staff continue to work with its specialty consultants to review and possibly restructure the portfolio as feasible.</td>
<td>As Gallagher Fiduciary Advisors, LLC discuss in their report, the System restructured the Joint-Venture Real Estate portfolio and is working with legal counsel and external consultants towards a resolution for the remaining assets. Therefore, the finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>1.h2</td>
<td>The System should continue to monitor performance of the Trust and the underlying strategies and adjust its asset allocation and restructure asset classes as appropriate and reasonable.</td>
<td>The System will continue to monitor performance. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented.</td>
</tr>
<tr>
<td>2.a</td>
<td>The Fund Due Diligence procedure was approved in 2014 and our review shows that it is due to be reviewed in 2015. Gallagher recommends</td>
<td>The System will continue to update procedures on an annual basis. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the</td>
</tr>
</tbody>
</table>

Matrix - follow-up on AG recommendations

24 February 2016
<table>
<thead>
<tr>
<th>Task 2.b: Determine whether the System used the identified processes and controls for alternative investment contracts the System’s entered into during fiscal years 2005 through 2014.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.b1</td>
<td>Gallagher recommends creating an Executive Summary for each partnership that reflects the twelve areas of focus outlined in the due diligence process (FDD2014). The summary should indicate that each area has been reviewed and completed as outlined in the process document. The summary should be included in all due diligence records, in both electronic and hard copy form, as appropriate.</td>
</tr>
<tr>
<td></td>
<td><strong>Complete.</strong></td>
</tr>
<tr>
<td>2.b2</td>
<td>The Internal Audit and Compliance Officer should review, at least annually, each investment that has been approved by the Administrator, Staff and consultants for the System portfolio. The scope of this review should mirror that of the internal process documented in the Review of Investment Due Diligence Report dated March 18, 2013. Future annual reviews should be presented to the Board of Trustees.</td>
</tr>
<tr>
<td></td>
<td><strong>Review of the due diligence process is on the 2015-2016 audit schedule.</strong></td>
</tr>
<tr>
<td>2.b3.</td>
<td>Gallagher recommends updating and revising the due diligence procedures on an annual basis. In the next revision of the procedure outlined in FDD2014, Gallagher specifically recommends:</td>
</tr>
<tr>
<td>2.b3.a</td>
<td>Expand the staff memo to specifically include information on how the investment was identified and selected for due diligence.</td>
</tr>
<tr>
<td></td>
<td><strong>Complete.</strong></td>
</tr>
<tr>
<td>2.b3.b</td>
<td>Include a note in the FDD2014 procedure that very clearly specifies</td>
</tr>
<tr>
<td>Task</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
</tr>
<tr>
<td>2.b3.c</td>
<td>When making an additional investment with an existing manager relationship, ask the investment manager to verify, in writing, any material changes to the firm or investment process since the time of the most recent investment by the System.</td>
</tr>
<tr>
<td>2.b3.d</td>
<td>Either remove or clarify the reference to Board of Trustees meetings as appropriate.</td>
</tr>
<tr>
<td>Task 2.c: Determine if the System collects and utilizes monitoring data to improve subsequent contracts</td>
<td></td>
</tr>
<tr>
<td>2.c1</td>
<td>The System should continue to utilize outside firms in the legal review of fund terms and documents, as appropriate, and focus on key legal partners as opposed to casting a wide net with several approved vendors.</td>
</tr>
<tr>
<td>2.c2</td>
<td>The System should periodically review each service provider which can help ensure that the firms continue to serve in the best interest of the Trust. Gallagher recommends that such a review be conducted at least every three years.</td>
</tr>
<tr>
<td>Task 2.d: Compare the System’s processes and other controls for selecting, monitoring, and terminating alternative investment manager contracts and valuing investments to best practices, including but not limited to industry standards.</td>
<td></td>
</tr>
<tr>
<td>2.d1</td>
<td>Gallagher recommends the System continue with its commitment to regularly update and improve its due diligence procedures, particularly in light of the decision-making</td>
</tr>
<tr>
<td>2.d2</td>
<td>A periodic review of all service providers (both investment advisors and legal representation) would help to ensure that the System continues to receive high-quality guidance and advice at a reasonable cost. Gallagher recommends that these reviews be conducted at least every three years.</td>
</tr>
</tbody>
</table>

**Task 3: Determine if the System has adequate processes and other controls over external investment manager fees; identify the reasons for and impact of any inadequate processes and controls; and make recommendations for improving processes and controls, as appropriate. Tasks will include the following:**

**Task 3.a: Identify the processes and other controls the System uses for accepting and/or negotiating external investment manager fees**

| 3.a | The documented procedures mentioned in Section 3.a should include a standard method for documentation of fee negotiation. The documentation should match what is already being done, including the proposed fees from the manager before negotiation, the System office proposed fee structure, and the final agreement. | Gallagher Fiduciary Advisors, LLC discusses the positive economic impact of Staff’s active stance toward negotiating business terms. Simply documenting that practice is easily done. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented. | Complete. |

**Task 3.b: Determine whether the System used the identified processes and controls for accepting and/or negotiating external investment manager fees for contracts the System entered into during fiscal years 2005 through 2014.**

| 3.b | The documented procedures mentioned in Section 3.a should include a standard method for documentation of fee negotiation. The documentation should match what is already being done, including the proposed fees from the manager before negotiation, the System office proposed fee structure, and the final agreement. | This recommendation is identical to the previous recommendation. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented. | Complete. |
Task 3.c: Compare the System’s processes and other controls over setting external investment manager fees to best practices, including but not limited to industry standards.

| 3.c | Gallagher recommends that the System begin by giving a person or group responsibility for fee policy and negotiations. Once established, this group can also be tasked with documenting procedures that include the best practices outlined by the GFOA. The group should draft a formal report on fee negotiations to be completed prior to the execution of each investment agreement. | This recommendation is directionally similar to the previous recommendations in this section. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented. | Complete. |

Task 3.d: Identify the reasons for and impact of any inadequate processes or other controls.

| 3.d | Gallagher recommends the documentation of fee negotiations should include acknowledgement of where the manager fee ranks compared to an appropriate peer group. Above-median fees should be justified by the perceived ability of the manager to add value over the appropriate benchmark. | The System will continue to evaluate a manager’s fee relative to their peer group. The finding of the Gallagher Fiduciary Advisors, LLC is agreed to and the audit recommendation will be implemented. | Complete. |
Activity at a Glance

<table>
<thead>
<tr>
<th>Activity</th>
<th>October 1, 2015 - December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 10-01-15</td>
<td>$11,659,860.41</td>
</tr>
<tr>
<td>Contributions/Transfers In*</td>
<td>$659,471.07</td>
</tr>
<tr>
<td>Interest/Dividend/Cap Gain/Reimb</td>
<td>$677,516.69</td>
</tr>
<tr>
<td>Gain/Loss</td>
<td>$224,060.40</td>
</tr>
<tr>
<td>Withdrawals/Transfers Out**</td>
<td>$614,178.75</td>
</tr>
<tr>
<td>Charges/Fees</td>
<td>-$100.00</td>
</tr>
<tr>
<td>Balance as of 12-31-15</td>
<td>$12,158,509.02</td>
</tr>
<tr>
<td>Self Directed Option balance</td>
<td>$267,761.40</td>
</tr>
<tr>
<td>Total Balance as of 12-31-15</td>
<td>$12,426,270.42</td>
</tr>
<tr>
<td>Plan Forfeiture Assets</td>
<td>$193,716.69</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$12,619,987.11</td>
</tr>
<tr>
<td>Vested balance</td>
<td>$12,022,812.97</td>
</tr>
</tbody>
</table>

*Including, but not limited to, Employee and Employer Contributions, Rollovers and Transfers In.
**Including, but not limited to, Rollovers and Transfers Out, Partial and Lump Sum Payments.

This statement represents an aggregate of the values of active accounts for those plan participants receiving a statement for this reporting period. Values reported above represent current period totals for those participants.

Investment Option Summary - October 1, 2015 to December 31, 2015

Ending Price is as of 12/31/2015

<table>
<thead>
<tr>
<th>Investment Option</th>
<th>Ending Price</th>
<th>Units/Shares</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>401(a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*AllnzGI NFJ SmCapValAdmn</td>
<td>19.960</td>
<td>11,152.5878</td>
<td>$222,605.64</td>
</tr>
<tr>
<td>*AmCent Eq Inc Inv</td>
<td>7.960</td>
<td>41,233.2511</td>
<td>$328,216.68</td>
</tr>
<tr>
<td>*AmFds Cap Wild Gr Inc R4</td>
<td>43.2600</td>
<td>9,157.9660</td>
<td>$407,989.79</td>
</tr>
<tr>
<td>*AmFds Inc Fd Am R4</td>
<td>20.1900</td>
<td>11,956.0050</td>
<td>$236,719.22</td>
</tr>
<tr>
<td>*AmFds Washnrgt M ul Inv A</td>
<td>38.4400</td>
<td>6,938.5850</td>
<td>$266,941.02</td>
</tr>
<tr>
<td>*Bwn Cap Sm Co Inv</td>
<td>71.4100</td>
<td>1,860.8506</td>
<td>$132,883.40</td>
</tr>
<tr>
<td>*DodgeCox Intl Stock Fd</td>
<td>36.4800</td>
<td>7,515.3114</td>
<td>$274,158.53</td>
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<tr>
<td>*Drey App</td>
<td>39.9600</td>
<td>4,866.1654</td>
<td>$194,451.93</td>
</tr>
<tr>
<td>*Drey MdCap Index</td>
<td>32.3100</td>
<td>6,215.3944</td>
<td>$200,819.43</td>
</tr>
<tr>
<td>*Dtsch EAFE Eq Idx Inst</td>
<td>7.0400</td>
<td>4,350.5872</td>
<td>$19,628.13</td>
</tr>
<tr>
<td>*Fid Contra</td>
<td>98.9500</td>
<td>10,835.2467</td>
<td>$1,072,147.69</td>
</tr>
<tr>
<td>*GdmnScs MdCap Val A</td>
<td>32.9300</td>
<td>2,740.6914</td>
<td>$90,250.97</td>
</tr>
<tr>
<td>Mry Stbl Val II</td>
<td>9.8200</td>
<td>4,804.4974</td>
<td>$47,520.22</td>
</tr>
<tr>
<td>*NW Dest 2015 Inst Svc</td>
<td>8.2400</td>
<td>523.0360</td>
<td>$4,309.82</td>
</tr>
<tr>
<td>*NW Dest 2020 Inst Svc</td>
<td>9.1000</td>
<td>142.3542</td>
<td>$1,296.42</td>
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<tr>
<td>*NW Dest 2025 Inst Svc</td>
<td>9.3100</td>
<td>1,589.6990</td>
<td>$14,800.09</td>
</tr>
<tr>
<td>*NW Dest 2030 Inst Svc</td>
<td>8.9500</td>
<td>11,648.4035</td>
<td>$104,253.21</td>
</tr>
<tr>
<td>*NW Dest 2035 Inst Svc</td>
<td>9.4500</td>
<td>395.6361</td>
<td>$3,738.77</td>
</tr>
<tr>
<td>*NW Dest 2040 Inst Svc</td>
<td>9.2500</td>
<td>974.9605</td>
<td>$9,018.39</td>
</tr>
<tr>
<td>*NW Dest 2045 Inst Svc</td>
<td>9.4100</td>
<td>372.6478</td>
<td>$3,506.62</td>
</tr>
<tr>
<td>*NW Dest 2050 Inst Svc</td>
<td>7.9900</td>
<td>215.9399</td>
<td>$1,725.36</td>
</tr>
<tr>
<td>*NW Inv Dest Aggr Svc</td>
<td>9.8200</td>
<td>105,660.1958</td>
<td>$1,037,583.08</td>
</tr>
<tr>
<td>*NW Inv Dest Cnsrv Svc</td>
<td>9.8900</td>
<td>4,804.8741</td>
<td>$47,520.22</td>
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<tr>
<td>*NW Inv Dest Mod Aggr Svc</td>
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<td>67,784.8138</td>
<td>$681,237.37</td>
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</tbody>
</table>
Statement Details

Investment Option Summary (continued)
Investment Option
*NW Inv Dest Mod Cnsrv Svc
*NW Inv Dest Mod Svc
Nationwide Fixed Account
*NeuBer Genesis Tr
*NeuBer Hi Inc Bd Inv
*NeuBer Soc Resp Tr
*Nuvn RealEst Sec I
*PIMCO Ttl Rtn Inst
*TRowePr MdCap Gr Adv
*Vngrd Gr Indx Adml
*Vngrd Inst Indx Inst
*Vngrd SmCap Indx Inst
*Vngrd Ttl Bd Mkt Indx Inst
*WFA Gr Inst

Ending Price

Units/Shares

Value

9.8700
9.7000

19,405.3269
47,341.2652

53.7400
8.0400
19.1300
22.9700
10.0700
71.4100
54.7700
186.6200
53.0500
10.6400
46.0000

5,628.1080
8,863.2501
951.3376
914.6910
58,301.1934
4,219.6637
822.9958
5,927.8237
2,380.1305
15,149.1682
29,224.5584

$191,530.57
$459,210.27
$2,012,827.40
$302,454.54
$71,260.52
$18,199.09
$21,010.44
$587,093.02
$301,326.23
$45,075.45
$1,106,250.46
$126,265.94
$161,187.17
$1,344,329.68

TOTAL**

$12,352,225.71

* Fund is valued in shares rather than units
** Plan forfeiture assets are included.

Participant Account Values by Investment Option - October 1, 2015 to December 31, 2015
Exchanges

Withdrawals/
Transfers Out

Charges/
Credits/Fees

Interest/
Dividend/
Cap Gain/
Reimb

Gain/Loss

Ending
Balance

$5,966.89
$10,095.24
$18,424.72
$16,120.69
$8,328.45
$8,615.91
$11,570.72
$6,701.54
$7,337.21
$3,751.96
$27,104.80
$1,995.60
$0.00
$0.00
$2,915.25
$3,050.69
$17,836.82
$15,963.27
$7,859.22
$1,543.88
$2,280.27
$33,140.54
$2,258.31
$22,826.26
$12,618.15
$24,003.53
$0.00
$235,039.65
$6,800.83
$5,330.72
$950.92
$4,263.06
$21,342.28
$15,482.01
$9,870.47
$32,495.41
$8,659.06
$12,018.42
$34,908.32

$0.00
$0.00
-$67,569.38
-$40,226.66
$8,235.72
-$201.47
-$444.76
$0.00
$0.00
$0.00
-$39,913.51
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
-$3,741.18
$0.00
$0.00
$0.00
-$24,038.95
$0.00
$0.00
$0.00
-$11,902.63
$0.00
$380,566.35
-$37,722.36
$0.00
$0.00
-$4,955.40
-$34,893.46
-$92,168.12
$0.00
$24,038.95
$8,235.72
-$24,371.32
-$38,927.54

-$5,404.58
-$3,351.29
-$19,476.02
-$25,895.49
-$12,457.17
-$32,464.59
-$9,454.29
-$756.32
-$7,215.95
-$3,344.39
-$22,191.59
-$2,376.60
$0.00
$0.00
-$11,195.93
-$1,585.05
-$33,033.60
-$28,706.39
-$14,223.75
-$1,029.04
-$2,057.99
-$17,478.25
-$162.73
-$1,587.45
-$9,361.16
-$48,541.87
-$626.86
-$85,068.69
-$1,527.59
-$6,760.27
$0.00
-$13,924.16
-$4,335.93
-$17,502.32
-$38,956.46
-$56,775.17
-$28,128.78
-$30,743.85
-$16,477.18

$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
-$25.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
$0.00
-$12.65
$0.00
-$10.78
$0.00
$0.00
-$51.57

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$26,725.32
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$6,803.45
$12,341.16
$11,630.06
$6,357.76
$41,993.73
$23,897.53
$14,755.18
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$1,660.02
$942.67
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$184.01
$72,158.84
$868.59
$48,760.94
$7,578.08
$40,590.17
$25.73
$0.00
$28,507.37
$1,068.02
$1,757.22
$1,561.34
$25,399.49
$27,311.70
$322.60
$6,895.16
$709.21
$1,352.73
$155,815.12

-$34,126.34
-$6,913.78
$11,532.67
$6,680.97
$5,484.26
$177.48
-$4,608.78
-$32,313.16
-$19,266.15
-$13,641.55
$21,902.70
-$10,134.00
$7.60
-$230.42
-$504.42
-$331.19
-$3,435.85
-$1,509.23
-$629.01
-$112.15
-$183.24
-$38,292.74
-$629.84
-$29,883.40
-$5,046.65
-$30,391.48
-$21.41
$14,592.04
-$17,931.14
-$2,573.32
-$803.47
$710.43
-$22,407.71
-$6,448.40
$3,727.76
$65,143.45
$3,050.13
-$2,419.88
-$72,281.18

$222,605.64
$328,216.68
$441,944.03
$241,533.07
$266,719.22
$132,883.40
$274,158.53
$194,451.93
$200,819.43
$30,628.13
$1,072,147.69
$90,250.97
$5,141.17
$4,309.82
$1,295.42
$14,800.09
$104,253.21
$3,738.77
$9,018.39
$3,506.62
$1,725.36
$1,037,583.08
$47,520.22
$681,237.37
$191,530.57
$459,210.27
$0.00
$2,012,827.40
$302,454.54
$71,260.52
$18,199.09
$21,010.44
$587,093.02
$301,326.23
$45,075.45
$1,106,250.46
$126,265.94
$161,187.17
$1,344,329.68

$659,471.07

$0.00

-$614,178.75

-$100.00

$677,516.69

-$224,060.40

$12,158,509.02

Beginning
Balance

Contributions/
Transfers In

$220,729.21
$301,661.19
$489,138.40
$278,050.11
$244,786.80
$145,126.01
$270,737.88
$178,826.14
$196,066.79
$29,106.93
$1,040,382.91
$89,765.07
$5,133.57
$4,221.33
$9,493.44
$12,993.29
$116,336.45
$20,072.28
$15,069.26
$2,910.55
$1,502.31
$1,012,093.64
$45,185.89
$641,121.02
$185,742.15
$485,452.55
$622.54
$1,467,698.05
$324,327.43
$74,195.37
$16,294.42
$33,355.17
$601,988.35
$374,664.01
$70,111.08
$1,034,463.44
$133,740.60
$205,351.07
$1,281,343.71
$11,659,860.41

401(a) (0050770001)
*AllnzGI NFJ SmCapValAdmn
*AmCent Eq Inc Inv
*AmFds Cap Wld Gr Inc R4
*AmFds Inc Fd Am R4
*AmFds Wshngtn Mut Inv A
*Brwn Cap Sm Co Inv
*DodgeCox Intl Stock Fd
*Drey App
*Drey MdCap Indx
*Dtsch EAFE Eq Indx Inst
*Fid Contra
*GdmnScs MdCap Val A
Mrly Stbl Val II
*NW Dest 2015 Inst Svc
*NW Dest 2020 Inst Svc
*NW Dest 2025 Inst Svc
*NW Dest 2030 Inst Svc
*NW Dest 2035 Inst Svc
*NW Dest 2040 Inst Svc
*NW Dest 2045 Inst Svc
*NW Dest 2050 Inst Svc
*NW Inv Dest Aggr Svc
*NW Inv Dest Cnsrv Svc
*NW Inv Dest Mod Aggr Svc
*NW Inv Dest Mod Cnsrv Svc
*NW Inv Dest Mod Svc
*NW Rtrmt Inc Inst Svc
Nationwide Fixed Account
*NeuBer Genesis Tr
*NeuBer Hi Inc Bd Inv
*NeuBer Soc Resp Tr
*Nuvn RealEst Sec I
*PIMCO Ttl Rtn Inst
*TRowePr MdCap Gr Adv
*Vngrd Gr Indx Adml
*Vngrd Inst Indx Inst
*Vngrd SmCap Indx Inst
*Vngrd Ttl Bd Mkt Indx Inst
*WFA Gr Inst
TOTAL**

* Fund is valued in shares rather than units
** Plan assets are not included
Gain/Loss is the difference between the account balance on the first and last day of the period, after allowing for the effects of transactions.

2

QUARTERLY REPORT FOR ARIZONA PUBLIC SAFETY RETIREMENT SYSTEM


The following are percentage changes in Net Assets (with capital gains and income dividends reinvested) for the funds under the Plan, for the respective periods ended 12/31/2015. The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Performance data current to the most recent month-end may be obtained by visiting: WWW.ARIZONADC.COM. Please consider the fund's investment objectives, risks, and charges and expenses carefully before investing. The prospectus contains this and other important information about the investment company. Prospectuses are available by calling (800)796-9753. Read the prospectus carefully before investing.

The rates of return do not reflect a maximum deduction of 0.00% annual plan asset fee, which, if reflected, would reduce the performance shown.

Please see other important disclosures at the end of this report.

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Symbol</th>
<th>Variable Investment Options</th>
<th>Morningstar Category</th>
<th>Average 3 Month</th>
<th>Average 1 Year</th>
<th>Average 5 Year</th>
<th>Average 10 Year</th>
<th>Since Inception</th>
<th>Inception Date</th>
<th>Gross Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>FARCX</td>
<td>Nuvn RealEst Sec I</td>
<td>Specialty</td>
<td>Real Estate</td>
<td>7.73%</td>
<td>3.48%</td>
<td>11.94%</td>
<td>8.73%</td>
<td>12.23%</td>
<td>06/30/95</td>
<td>1.05%</td>
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<td>VSCIX</td>
<td>Vngrd SmCap Indx Inst</td>
<td>Small Blend</td>
<td>3.12%</td>
<td>-3.63%</td>
<td>10.45%</td>
<td>7.98%</td>
<td>8.33%</td>
<td>07/07/97</td>
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<tr>
<td>BCSIX</td>
<td>Brwn Cap Sm Co Inv</td>
<td>Small Growth</td>
<td>9.21%</td>
<td>8.75%</td>
<td>14.26%</td>
<td>13.02%</td>
<td>12.00%</td>
<td>12/31/92</td>
<td>1.26%</td>
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</tr>
<tr>
<td>NBGEX</td>
<td>NeuBer Genesis Tr</td>
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<td>2.84%</td>
<td>0.15%</td>
<td>9.44%</td>
<td>7.75%</td>
<td>12.06%</td>
<td>09/27/88</td>
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<td>7.21%</td>
<td>11.17%</td>
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<td>DODFX</td>
<td>DodgeCox Intl Stock Fd</td>
<td>Foreign Large Blend</td>
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<td>-11.35%</td>
<td>2.65%</td>
<td>3.83%</td>
<td>7.05%</td>
<td>05/01/01</td>
<td>0.64%</td>
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<td>BTAEX</td>
<td>Dtsch EAFE Eq Indx Inst</td>
<td>Foreign Large Blend</td>
<td>4.17%</td>
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<td>3.33%</td>
<td>2.76%</td>
<td>4.16%</td>
<td>01/24/96</td>
<td>0.49%</td>
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<td>RWIEX</td>
<td>AmFds Cap Wld Gr Inc R4</td>
<td>World Stock</td>
<td>3.99%</td>
<td>-2.20%</td>
<td>6.93%</td>
<td>5.82%</td>
<td>10.38%</td>
<td>03/26/93</td>
<td>0.79%</td>
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<td>PESPX</td>
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<td>7.72%</td>
<td>11.46%</td>
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<td>6.40%</td>
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<td>-2.51%</td>
<td>8.74%</td>
<td>5.91%</td>
<td>10.31%</td>
<td>01/18/84</td>
<td>0.93%</td>
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<td>VINIX</td>
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<td>7.05%</td>
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<td>12.54%</td>
<td>7.31%</td>
<td>9.41%</td>
<td>07/31/90</td>
<td>0.04%</td>
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<td>FCNTX</td>
<td>Fid Contra</td>
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<td>6.49%</td>
<td>12.69%</td>
<td>8.71%</td>
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<tr>
<td>NBSTX</td>
<td>NeuBer Soc Resp Tr</td>
<td>Large Growth</td>
<td>5.85%</td>
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<td>6.87%</td>
<td>8.84%</td>
<td>03/16/94</td>
<td>1.03%</td>
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<tr>
<td>SGRNX</td>
<td>WFA Gr Inst</td>
<td>Large Growth</td>
<td>6.49%</td>
<td>2.94%</td>
<td>12.73%</td>
<td>11.05%</td>
<td>11.52%</td>
<td>12/31/93</td>
<td>0.80%</td>
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</tr>
<tr>
<td>VIGAX</td>
<td>Vngrd Gr Indx Adml</td>
<td>Large Growth</td>
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<td>13.12%</td>
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<td>4.58%</td>
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<td>AmFds Wshngtn Mut Inv A</td>
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<td>12.02%</td>
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<td>11.79%</td>
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<td>AmCent Eq Inc Inv</td>
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<td>10.38%</td>
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<td>8.26%</td>
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<td>10.93%</td>
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<td>NeuBer Hi Inc Bd Inv</td>
<td>High Yield Bond</td>
<td>-1.77%</td>
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<td>4.04%</td>
<td>6.52%</td>
<td>7.34%</td>
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<tr>
<td>VBTIX</td>
<td>Vngrd Ttl Bd Mkt Indx Inst</td>
<td>Intermediate-Term Bond</td>
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<td>0.41%</td>
<td>3.15%</td>
<td>4.50%</td>
<td>5.41%</td>
<td>09/18/95</td>
<td>0.06%</td>
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<tr>
<td>PTRRX</td>
<td>PIMCO Ttl Rtn Inst</td>
<td>Intermediate-Term Bond</td>
<td>0.45%</td>
<td>0.72%</td>
<td>3.52%</td>
<td>5.77%</td>
<td>7.58%</td>
<td>05/11/87</td>
<td>0.46%</td>
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</tbody>
</table>

**Short-Term Investments**

| Mrtl Stbl Val II (d) (*) | N/A | 0.15% | 0.52% | 0.60% | 1.66% | 3.31% | 12/02/93 |
## Investment Performance Information - October 1, 2015 to December 31, 2015

<table>
<thead>
<tr>
<th>Ticker Symbol</th>
<th>Variable Investment Options</th>
<th>Morningstar Category</th>
<th>3 Month</th>
<th>Average 1 Year</th>
<th>Annual 5 Year</th>
<th>Return 10 Year</th>
<th>Since Inception</th>
<th>Inception Date</th>
<th>Gross Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDMSX</td>
<td>NW Inv Dest Mod Aggr Svc (j)</td>
<td>Aggressive Allocation</td>
<td>2.99%</td>
<td>-2.27%</td>
<td>6.65%</td>
<td>4.91%</td>
<td>3.76%</td>
<td>03/30/00</td>
<td>0.87%</td>
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<td>7.37%</td>
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<td>3.52%</td>
<td>03/30/00</td>
<td>0.85%</td>
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<td>NDCSX</td>
<td>NW Inv Dest Cnsrv Svc (j)</td>
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<td>-0.23%</td>
<td>3.01%</td>
<td>3.43%</td>
<td>3.47%</td>
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<td>NSDCX</td>
<td>NW Inv Dest Mod Cnsrv Svc (j)</td>
<td>Conservative Allocation</td>
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<td>4.18%</td>
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<td>0.87%</td>
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<tr>
<td>NSDMX</td>
<td>NW Inv Dest Mod Svc (j)</td>
<td>Moderate Allocation</td>
<td>2.24%</td>
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<td>5.55%</td>
<td>4.55%</td>
<td>3.83%</td>
<td>03/30/00</td>
<td>0.86%</td>
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<tr>
<td>NWRSX</td>
<td>NW Rtrmt Inc Inst Svc (b)</td>
<td>Retirement Income</td>
<td>1.03%</td>
<td>-0.49%</td>
<td>2.28%</td>
<td>N/A</td>
<td>2.65%</td>
<td>08/29/07</td>
<td>0.65%</td>
</tr>
<tr>
<td>NWESX</td>
<td>NW Dest 2015 Inst Svc (l)</td>
<td>Target Date 2011-2015</td>
<td>2.10%</td>
<td>-0.78%</td>
<td>4.59%</td>
<td>N/A</td>
<td>3.07%</td>
<td>08/29/07</td>
<td>0.65%</td>
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<tr>
<td>NWSX</td>
<td>NW Dest 2020 Inst Svc (l)</td>
<td>Target Date 2016-2020</td>
<td>2.36%</td>
<td>-1.27%</td>
<td>5.24%</td>
<td>N/A</td>
<td>3.41%</td>
<td>08/29/07</td>
<td>0.65%</td>
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<tr>
<td>NWHSX</td>
<td>NW Dest 2025 Inst Svc (l)</td>
<td>Target Date 2021-2025</td>
<td>2.89%</td>
<td>-1.70%</td>
<td>5.90%</td>
<td>N/A</td>
<td>3.73%</td>
<td>08/29/07</td>
<td>0.66%</td>
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<td>NWISX</td>
<td>NW Dest 2030 Inst Svc (l)</td>
<td>Target Date 2026-2030</td>
<td>3.12%</td>
<td>-1.82%</td>
<td>6.48%</td>
<td>N/A</td>
<td>3.82%</td>
<td>08/29/07</td>
<td>0.66%</td>
</tr>
<tr>
<td>NWWLSX</td>
<td>NW Dest 2035 Inst Svc (l)</td>
<td>Target Date 2031-2035</td>
<td>3.37%</td>
<td>-1.98%</td>
<td>6.99%</td>
<td>N/A</td>
<td>3.87%</td>
<td>08/29/07</td>
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<tr>
<td>NWMSX</td>
<td>NW Dest 2040 Inst Svc (l)</td>
<td>Target Date 2036-2040</td>
<td>3.65%</td>
<td>-1.73%</td>
<td>7.15%</td>
<td>N/A</td>
<td>3.69%</td>
<td>08/29/07</td>
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<tr>
<td>NWNSX</td>
<td>NW Dest 2045 Inst Svc (l)</td>
<td>Target Date 2041-2045</td>
<td>3.91%</td>
<td>-1.69%</td>
<td>7.32%</td>
<td>N/A</td>
<td>3.74%</td>
<td>08/29/07</td>
<td>0.64%</td>
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<tr>
<td>NWOSX</td>
<td>NW Dest 2050 Inst Svc (l)</td>
<td>Target Date 2046-2050</td>
<td>3.88%</td>
<td>-1.73%</td>
<td>7.24%</td>
<td>N/A</td>
<td>3.78%</td>
<td>08/29/07</td>
<td>0.65%</td>
</tr>
</tbody>
</table>

## FEE DISCLOSURES

The Standardized illustration represents performance based on a $10,000 hypothetical investment, and reflects the deduction of the following fees:

- * denotes a Fee of 0.30%
- Gross expense ratios represent the fund's total operating expenses expressed as a percentage of the assets held in the fund. For more information about gross expense ratios, read the fund's prospectus.
- Some mutual funds may impose a short term trade fee. Some funds may be subject to a trade restriction policy. Please read the underlying prospectus carefully.

## FOOTNOTES

1. b) These funds are designed to provide diversification and asset allocation across several types of investments and asset classes, primarily by investing in underlying funds. Therefore, in addition to the fund's expenses, you are indirectly paying a proportionate share of the applicable fees and expenses of the underlying funds.
2. d) The fund's initial investments will be in units of Morley Financial's Stable Value Fund. Return history pertains to the Stable Value Fund managed by the same fund manager since inception in December 1993.
3. g) Interest rates are declared quarterly and are subject to change. Guarantees are subject to the claims-paying ability of the company. The unregistered fixed annuity is issued by Nationwide Life Insurance Company, Columbus, Ohio.
4. j) Nationwide Investor Destinations Funds are designed to provide diversification and asset allocation. They do this by investing in several types of investments and asset classes. So, in addition to the expenses of the Investor Destinations Fund, you pay a proportionate share of the expenses of the underlying funds.
5. l) The Target Destination Funds invest in a wide variety of underlying funds to help reduce investment risk. So in addition to the expenses of the Target Destination Funds, you pay a proportionate share of the expenses of the underlying funds. Like other funds, Target Destination Funds are subject to market risk and loss. Loss of principal can occur at any time, including before, at or after the target date. There is no guarantee that target date funds will provide enough income for retirement.

## RISK DISCLOSURES

- Money market funds: Money market funds are not insured or guaranteed by the FDIC or any other government agency. Although the goal of a money market is to preserve the value of an investment at $1 per share, it is still possible to lose money.
- International/emerging markets funds: Funds that invest in international stocks face risks that funds investing only in U.S. stocks do not. Currency fluctuation, political risk, differences in accounting standards and the limited availability of information may make these funds less stable.
- Small company funds: Small and emerging companies may have less liquidity than larger, established companies. Therefore, funds investing in stocks of small or emerging companies may face greater price volatility and risk.
- High-yield bond funds: Funds that invest in high-yield securities may have more credit risk and changes in price than funds that invest in higher-quality securities.
- Non-diversified funds: Funds that invest in a single industry or small number of securities may be more volatile than those that invest more broadly.
- Government bond funds: These funds invest mainly in securities of the U.S. government and its agencies; however, these entities do not guarantee the value of the funds.
- Real estate funds: Funds that invest mainly in real estate are sensitive to economic and business cycles, changing demographic patterns and government actions.

## IMPORTANT DISCLOSURES

"Inception Date" is the date the fund was established. The "Since Inception" column contains performance for the funds if the Inception Date was before the time period indicated.

Performance numbers in the "3 Month" and "1 Year" columns are not annualized returns and represent the total percentage change in share value for the time periods indicated.

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Investment Performance Information - October 1, 2015 to December 31, 2015

Nationwide Retirement Solutions, Inc. and its affiliates (Nationwide) offer a variety of investment options to public sector retirement plans through variable annuity contracts, trust or custodial accounts. Nationwide may receive payments from mutual funds or their affiliates in connection with those investment options. Additionally, Nationwide may enter into arrangements to allocate all or a portion of these payments to plan sponsors for plan expenses. For more detail about the payments Nationwide receives, please visit www.nrsforu.com

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- Education and Workforce HELP Subcommittee holds fiduciary hearing ........................................................ Page 4
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Representatives propose a new long-term savings program.

On November 18, Reps. Crowley (D-NY) and Ellison (D-MN) introduced the USAcounts: Investing in America’s Future Act of 2015. The bill would create a new savings program called USAcounts, a long-term savings account that would be opened in a child’s name with an initial government contribution of $500 upon the birth of the child.

The bill would also increase the child tax credit to match the amount of their contribution to the account, up to $500. If the family also qualifies for the Earned Income Tax Credit, the government would contribute up to an additional $500 in matching funds into an account.

The USAcounts bill is the first part of Crowley’s Building Better Savings, Building Brighter Futures plan to address the savings and retirement crisis in America, which had been announced last Congress by Rep. Crowley.

DOL proposes guidance for state-run retirement plans for private sector workers.

The Department of Labor (DOL) has proposed regulations clarifying when state-based IRA programs are exempt from coverage under the Employee Retirement Income Security Act of 1974 (ERISA).

The President had directed the DOL to publish this guidance at the 2015 White House Conference on Aging to support the efforts of the states which have established (California, Illinois, Oregon) or are thinking of establishing (West Virginia, Maryland) state-run savings programs for private-sector workers who lack access to retirement plans.
In response to that directive, the DOL proposed two pieces of guidance on the subject.

- The first is a proposed regulation that would provide an exemption from ERISA for IRA-based state(k) plans using automatic enrollment. The proposed regulation will go through the regulatory notice and comment period. Comments are due January 19, 2016.
- The second set of guidance is an “Interpretive Bulletin” that explains DOL’s views on voluntary state-based arrangements intended to be full ERISA plans. The Interpretive Bulletin does not require notice or comment and is effective immediately.

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Proposals and counter-proposals heat up debate over fiduciary rule.

Senators urge Sec. of Labor to include Congress in standard-making process.

On December 4, Senators Portman (R-OH) and Cardin (D-MD) sent a letter to Labor Secretary Perez emphasizing the need for Congressional involvement in the fiduciary standard process and in the making of any changes to the retirement landscape.

The letter also emphasizes the need for a best interest standard but relays concerns the Senators have about the DOL’s rule’s potential impact on low- and moderate-income savers’ access to investment advice and education.

Meanwhile, the DOL and its supporters went on the offensive after a bipartisan group of lawmakers announced their list of fiduciary legislative principles. Reps. Roe (R-TN), Neal (D-MA), Roskam (R-IL), Grisham (D-NM), Larson (D-CT), and Carter (R-GA) have faced criticism from proponents of the DOL rule as well as from the Department itself.

The DOL issued a statement defending the proposed rule and stating it had no intention of allowing Congress to influence the rulemaking process. The DOL also stated, “it is puzzling and disappointing that after the department’s five-year extensive and inclusive outreach process, Congressman Neal would embark on a closed-door initiative — in partnership with Republican leadership and a select few from Wall Street — that lacks the inclusiveness and thoroughness he and others have called for.”

Reps. Waters (D-CA) and Scott (D-VA) circulated a Dear Colleague letter opposing any legislation that would undermine the Department of Labor’s proposed fiduciary rule, such as the bipartisan principles. Despite this opposition, the bipartisan group is still working toward releasing their principles as a more fully formed solution in the form of a bill in the coming weeks.

SEC expects to release its own fiduciary standard in October 2016.

The Securities and Exchange Commission (SEC) released its Notice of Proposed Rulemaking (NPRM) for its own fiduciary standard. No other details as to the content of the rule were released.

Nationwide Comment

Nationwide and the industry have been working closely with the offices involved in the bipartisan solution toward a final product that will satisfy the need for a best interest standard without the potentially harmful effects that the proposal as currently written would have on small businesses and low- and moderate-income savers.

Given the Senators’ reputation of being leaders in retirement policy developed through their work on the Comprehensive Retirement Security and Pension Reform Act in 2001 (eventually passed as the Economic Growth and Tax Relief Reconciliation Act of 2001), which put in place many much-needed improvements to the retirement system, and the bipartisan nature of the letter, many hope that the DOL will be willing to heed the Senators’ advice.
but the fact that it was listed is seen as a sign it is a priority for the agency, which has authority to write a fiduciary standard under the 2010 Dodd-Frank reform law.

Securities and Exchange Commission (SEC) Chairwoman White testified at a House Financial Services Committee hearing titled, “Examining the SEC’s Agenda, Operations and FY 2017 Budget Request.” Several Members, including Chairman Hensarling (R-TX) and Ranking Member Waters (D-CA), asked about the fiduciary issue, which under the 2010 Dodd-Frank reform law the SEC has the authority to write its own standard.

In response to questioning, Chairwoman White said that:

- SEC is aware of the investment advice gap that has resulted in the UK from a similar rule and is working to prevent a similar situation in the US
- Due to its powers under ERISA, the DOL is not stepping on the SEC’s authority to write its own rule
- SEC is working with the DOL to prevent conflicting rules

Of particular note, Chairwoman White cited lack of funding as the reason the SEC cannot complete all its assigned tasks, such as fiduciary.

Although the release date is listed as October 2016, it is fairly common for agencies to miss expected deadlines. The DOL released its own fiduciary proposal in April 2015 and many in the industry and in Congress have highlighted the lack of coordination between the two agencies and the potential for different and conflicting proposals.

**Education and Workforce HELP Subcommittee holds fiduciary hearing.**

On December 2, the House Education and the Workforce Subcommittee on Health, Employment, Labor, and Pensions held a hearing titled, “Principles for Ensuring Retirement Advice Serves the Best Interest of Working Families and Retirees.” The hearing focused on the set of legislative principles developed by Subcommittee Chairman Roe (R-TN) and Reps. Roskam (R-IL), Neal (D-MA), and others to guide the development of a possible legislative solution to the DOL conflict of interest proposal. Topics discussed in the hearing included, but were not limited to:

- Access to advice
- Impact on small businesses
- Impact on advisers
- DOL authority
- Best Interest Contract Exemption (BICE)

Observers considered the outcome of the hearing to be positive but it did not result in any concrete changes going forward.

**Clinton takes up fiduciary mantle.**

Presidential candidate Hillary Clinton earlier this month injected herself into the Congressional debate over the direction of the DOL’s proposed fiduciary standard. The former secretary of state...
directed Democrats in Congress to “do everything they can to stop” Republican lawmakers from adding language to a government spending bill that would effectively dictate parameters of a pending Labor Department rule. Such a measure would kill the plan the agency issued earlier this year.

Investment News reported that Clinton has made it clear that if she becomes the next president, she will pursue even stronger rules for financial firms.
References and source material used in this publication

Page 1
Crowley, Ellison Introduce Legislation to Help Every American Child Stat Financial Future on Right Foot

Building Better Savings, Building Brighter Futures

DOL Releases Proposal, Guidance on State-Run Retirement Plans

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Portman-Cardin Letter to Labor Secretary Perez

Economic Growth and Tax Relief Reconciliation Act of 2001

DOL pushes back on legislation to kill fiduciary

SEC’s fiduciary standard expected October 2016

Page 4
SEC Chairwoman answers fiduciary questions

Principles for Ensuring Retirement Advice Serves the Best Interests of Working Families and Retirees

Page 5
Hillary Clinton takes up fiduciary mantle for financial advice industry
www.investmentnews.com/article/20151207/FREE/151209939/hillary-clinton-takes-up-fiduciary-mantle-for-financial-advice

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Keeping watch

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- **Plan Sponsor Alerts** – published as needed to announce breaking news.
- **457 Guidebook** – which has been revised to include information about the American Taxpayer Relief Act of 2012, Pension Protection Act of 2006; The Heroes Earnings Assistance and Relief Tax Act of 2008; Worker, Retiree & Employer Recovery Act of 2008; and The Small Business Jobs Act of 2010.

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Beasley has served on the Education and Communication Committee for the Plan Sponsor Council of America and as a member of the National Association of Government Defined Contribution Administrators.
January 2016

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DOL’s proposed fiduciary rule survives challenges in omnibus spending bill.

On December 18, President Obama signed the $1.6 trillion omnibus spending package (the omnibus) into law. The package had passed both Chambers of Congress the same day (316 yeas/113 Nays in the House; 65 yeas/33 nays in the Senate).

Of note, due to strong and united opposition from the Democratic Caucus as well as insufficient Republican votes to pass the overall omnibus using just the majority party (giving the Democratic minority more leverage), language to defund the Department of Labor’s (DOL) fiduciary proposal, delay it for a short time, and/or offer another comment period was not included in the final package. Given this exclusion, the rule will still be released in its final form as expected in Q1 2016.

The DOL’s proposed rule still faces headwinds in Congress. A bipartisan group of lawmakers announced last month that it will soon introduce a bill to replace the rule. The legislators say their bill would offer a better approach to ensuring financial advisers act in the best interests of their clients.

Nationwide Comment: Nationwide will continue working with our trade and coalition partners to pursue a litigation and legislative strategy in 2016.

Congress passes tax extenders package.

On December 18, Congress passed an approximately $650 billion package of business and individual tax incentives, known as “tax extenders,” which have been previously extended on a 1-2 year basis. The package makes some extenders permanent, extends others for five years, and extends still others only through the end of 2016. The package passed without any substantial revenue-raising provisions to offset the lost tax income.

Of note to Nationwide, these provisions were made permanent:

• The Research and Development tax credit;
• Permanent extension of the 9% minimum credit rate for the low-income housing tax credit;
• Tax free distributions from individual retirement plans for charitable purposes; and
• Enhanced deduction for donations by businesses that donate food inventory to charitable organizations.

It is widely believed that the new permanency (or relative permanency for those extended 5 years) of these incentives will help facilitate tax reform efforts in 2017 as there will be a more accurate indication of revenue. However, there is little to no hope that any serious attempt at tax reform will occur until 2017, after the Presidential and Congressional elections.

Several positive retirement plan changes were included in the tax extenders package, most importantly, an extension of the age 50 distribution exception for public safety officers. Currently, certain retired public safety officers are eligible to receive a distribution from a plan, without the 10% penalty, at age 50 (rather than age 55). Language included in the extenders package amends and expands this rule to include nuclear materials couriers, the United States Capitol Police, the Supreme Court Police, and diplomatic security special agents of the Department of State.

The package also includes language allowing rollovers from traditional IRAs, 401(a), 403(a), and governmental 457(b) plans into a SIMPLE IRA. The rollover cannot occur, however, until two years after the individual first participated in the SIMPLE IRA plan.

**Nationwide Comment:** As a leader in the governmental 457(b) retirement plans market, Nationwide supports these changes, which also reflect Congress’ understanding of the unique needs of public sector retirement plans.

**President Obama offers broad vision for protecting workers’ retirement savings.**

In what was billed as his final State of the Union address, President Obama on January 12 took a decidedly overarching tone, focusing on his Administration’s big victories and setting a broad outline for the future.

While he did not address the Department of Labor’s (DOL) fiduciary proposal directly, he did cite protecting workers’ retirement savings as a priority for the remainder of his presidency. He made comments about the shift from pensions to individuals’ responsibility for their savings and the importance of putting in place “benefits and protections that provide a basic measure of security.” He also stated he wants Americans to be able to carry their retirement savings wherever their career path leads.

The President also touched on a few tax areas with bipartisan support (such as changes to the earned income tax credit), but did not devote any significant amount of time to tax issues overall.

**Nationwide Comment:** Nationwide continues to work with its industry partners and with Members of Congress to work to make positive changes to the fiduciary proposal, which is expected to be sent to the White House for review before being released in final form in the coming weeks.
SEC’s 2016 Examination Priorities includes update on its ReTIRE initiative.

On January 11, the Securities and Exchange Commission (SEC) released its 2016 examination priorities, which included a section entitled “Protecting Retail Investors and Investors Saving for Retirement.” The section includes an update on the Commission’s ReTIRE initiative, which focuses on SEC-registered investment advisers and broker-dealers and the services they offer to investors with retirement accounts. The SEC will continue this initiative in 2016, which includes examining the reasonable basis for recommendations made to investors, conflicts of interest, supervision and compliance controls, and marketing and disclosure practices.

The SEC also announced that it will assess the suitability of sales of variable annuities to investors (e.g., exchange recommendations and product classes), as well as the adequacy of disclosure and the supervision of such sales.
References and source material used in this publication

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Massive spending bill fails to stop DOL fiduciary rule, clearing major hurdle

Legislation to replace DOL fiduciary could be tied to must-pass bill to keep government open

Official Tax Extenders Bill

Page 2

Transcript of Obama’s 2016 State of the Union Address
www.nytimes.com/2016/01/13/us/politics/obama-2016-sotu-transcript.html?_r=1

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SEC Announces 2016 Examination Priorities

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NRM-14838AO (01/2016)
Dear [Recipient],

The Arizona State Legislature recently enacted a law creating the Elected Officials' Defined Contribution Retirement System (EODCRS). Your retirement account is currently associated with the Public Safety Personnel Retirement System and will be moving to EODCRS effective by the end of 2015.

**Old plan details**
- Plan name: Public Safety Personnel Retirement System (PSPRS)
- Account number: [Old account number]

**New plan details**
- Plan name: Elected Officials' Defined Contribution Retirement System (EODCRS)
- Account number: [New account number]

**What to expect**
There’s no vesting within the EODCRS Plan; your account balance will now reflect your full balance. There will be no changes made to investment options or fund expenses on your account.

**For help when you need it**
If you have any questions or need additional information, contact our local office at 602-266-2733. Our specialists are available Monday through Friday, 8 a.m. to 5 p.m. Mountain time. You may also contact our service center at 800-796-9753. Our specialists are available Monday through Friday, 6 a.m. to 10 p.m. and Saturday, 7 a.m. to 4 p.m. Mountain time.

Sincerely,

Nationwide Service Center
PARTIES:

Appellants/Cross-Appellees: The Elected Officials’ Retirement Plan (“EORP”), the members of the Board of Trustees of the Public Safety Personnel Retirement System (“PSPRS”) (collectively, “EORP Defendants”) and the State of Arizona

Appellees/Cross-Appellants: Judges Philip Hall (ret.) and Jon W. Thompson and others similarly situated (“Judges” or “Plaintiffs”)

Amicus Curiae: National Conference on Public Employee Retirement Systems (“NCPERS”)

FACTS:

In November 2011 Judges Hall and Thompson, then both sitting judges and active Elected Officials’ Retirement Plan (EORP) members, brought this case as a class action challenging as unconstitutional the 2011 statutory amendments in Senate Bill (“SB”) 1609. The amendments increased the employee contribution rate during active employment and the pension benefit increase (“PBI”) mechanism and formula after retirement. The Judges claimed the amendments violated the Pension Clause of the Arizona Constitution, article 29, § (C); the Contracts Clauses, Ariz. Const. art. 2, § 25 and U.S. Const. art. 1, § 10, cl. 1; and Arizona’s Judicial Salary Clause, Ariz. Const. art. 6, § 33. Judge Hall has since retired.

The Judges are a class of active judge EORP members who became judges before 2011. Their claims implicate the two statutes that do not affect retired members: the vesting statute and the contribution rate statute, A.R.S. § 38-810(F).

Background: The legislature created EORP in 1985 for elected officials, judges, and EORP administrators. Arizona Revised Statutes (“A.R.S.”) §§ 38-801(15), 38-802, 38-805. In the years since, there have been many amendments to the statutes governing the retirement system.

In 1985 the legislature set the employee contribution at 6% of gross salary. A.R.S. § 38-810(A) (1985). In 1987 it increased the rate to 7%. A.R.S. § 38-810(A) (1987). The 2011 amendments in SB 1609 would increase contributions each year, eventually to 13%. Employer contributions to the pension plan are set actuarially, meaning adjusted to ensure the fund has enough money in reserve to pay its obligations if other sources, including court filing fees, employee
contributions, and return on investments, fall short.

In 2000 the legislature enacted a statute that specifies when elected officials’ pensions vest, A.R.S. § 38-810.02 (“vesting statute”). It provides, in part, that an active judge’s pension benefits do not vest, or become entitlements at a specific amount, until the time at which the judge applies for retirement benefits or leaves employment.

Through 2002 EORP was well-funded. After investment failures and the 2007 recession, the legislature concluded EORP and other state retirement funds were not sustainable if left as is. The legislature enacted SB 1609 with the stated aim of restoring financial stability to the plans.

Superior court decision: The court declared that SB 1069 violated the Pension Clause, to the extent that it “changed the formula and mechanism for granting permanent increases in base benefits under A.R.S. § 38-818[.]” After concluding the ruling under the Pension Clause disposed of the entire case, the court did not address the Contracts Clause or the Judicial Salary Clause claims. The court struck down the 2011 amendments as to all class members and enjoined their application to set employee contribution rates and calculate permanent increases in base benefits. It also denied the Judges attorneys’ fees and prejudgment interest.

Appeals: The Defendants appealed and the Plaintiffs cross-appealed. On a joint motion from the parties, this Court transferred the case from the Court of Appeals, Division One to the Arizona Supreme Court. All members of the sitting Arizona Supreme Court recused themselves from deciding this case and the chief justice appointed judges of the court of appeals and superior court who became judges after the 2011 amendments were enacted to hear and decide the case.

ISSUES:

**Appeal**

**EORP:** 1. Are SB 1609’s amendments to the employee contribution rate valid under the Pension Clause of the Arizona Constitution because the employee contribution rate is not a “benefit” protected under that clause?

2. Does the EORP vesting statute, A.R.S. § 38-810.02, preserve the constitutionality of the 2011 amendments regarding the employee contribution rate and PBI provisions as applied to any class members who joined EORP after the statute became effective because it was always part of their contractual relationship?

**State:** 1. Did the superior court err in holding that the vesting statute, A.R.S. § 38-810.02(B), has no practical force and effect, rather than adhering to its initial conclusion that the vesting statute authorizes the Legislature to make prospective changes in the EORP statutes for all active members whose rights have not yet vested?

2. Did the superior court err in holding that the prior contribution rate for active EORP participants is a “benefit” that is constitutionally protected against prospective
legislative amendment for active EORP members?

**Cross-Appeal**

1. Does this action arise out of a contract for purposes of the contract fee statute, A.R.S. § 12-341.01(A)?

2. Did the Superior Court err in refusing to award prejudgment interest?

3. Should the relief awarded by the Superior Court run against the State?

**DEFINITIONS:**

**Actuarial:** Method of calculating the risks and probabilities of uncertain future events using predictive mathematical models

**Class action:** Case brought by named plaintiffs for themselves and for unnamed numerous others who are “similarly situated,” with the same legal relationship to the rights being litigated.

**Vesting:** The legal process of becoming entitled to receive a specific benefit, especially a pension.

*This Summary was prepared by the Arizona Supreme Court Staff Attorneys’ Office solely for educational purposes. It should not be considered official commentary by the Court or any member thereof or part of any brief, memorandum, or other pleading filed in this case.*