PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
BOARD OF TRUSTEES MEETING  
March 29, 2017  

MINUTES

Present:
Mr. Brian Tobin, Chairman, Trustee  
Mr. William T. Buividas, Vice Chairman, Trustee  
Mr. William C. Davis, Trustee  
Mr. Edward J. McNeill, Trustee  
Mr. Bryan Raines, Trustee  
Mr. Mike Scheidt, Trustee  
Mr. Dean M. Scheinert, Trustee – Arrived at 1:02 p.m., Excused at 2:02 p.m.  
Mr. Donald A. Smith, Jr., Trustee – Excused

Others Present:
Mr. Jared Smout, Administrator  
Mr. Dave DeJonge, Deputy Administrator  
Mr. Ryan Parham, Chief Investment Officer  
Mr. Mark Steed, Deputy Chief Investment Officer  
Ms. Ivy N. Voss, Esq., Assistant Attorney General  
Ms. Rose Crutcher, Investment Paralegal  
Mr. Paul Hemmes, Information Technology  
Mr. Christian Palmer, Communications Director  
Ms. Lisa Sweeting, Continuous Improvement Administrator  
Ms. Diane McAllister, Public Policy Partners  
Mr. Doug Cole, HighGround  
Mr. Allan Martin, NEPC, LLC.  
Mr. Mark Buis, Senior Consultant, Gabriel Roeder, Smith & Company  
Mr. James D. Anderson, Senior Consultant, Gabriel Roeder, Smith & Company  
Mr. Francois Pieterse, Consultant, Gabriel Roeder, Smith & Company

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

The meeting was called to order at 12:55 p.m. by Chairman Tobin followed by the Pledge of Allegiance and Roll Call.

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 reply to the Call to the Public.

3. Appropriate Action for approval of the items on the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.
b. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Carol Murphy.
c. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of Ralph Odgen.
d. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Patricia Ogden.
e. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of H. Frank Scott.
g. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Cleo Stapley.
h. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Tom M. White, Jr.
i. Acceptance of Elected Officials’ Retirement Plan of termination of normal retirement benefit of J.L. White.
l. Acceptance of Transfer Between State Retirement Systems of Clinton Roberts.
m. Acceptance of Transfer Between State Retirement Systems of Michael Billingsley.
n. Acceptance of Transfer Between State Retirement Systems of Charles Pheanis.
o. Acceptance of Transfer Between State Retirement Systems of Timothy Spruyt.
p. Acceptance of Transfer Between State Retirement Systems of David Key-Nunes.
q. Acceptance of Transfer Between State Retirement Systems of Paul Leonard.
r. Acceptance of Transfer Between State Retirement Systems of Jia-Yuan Wang.
s. Acceptance of Transfer Between State Retirement Systems of Kerry Swick.
t. Acceptance of Transfer Between State Retirement Systems of Andre Wall.
u. Acceptance of Transfer Between State Retirement Systems of Joel Floyd.
v. Acceptance of Transfer Between State Retirement Systems of Gary Gleason.
w. Acceptance of Transfer Between State Retirement Systems of Lori Miller.
x. Acceptance of Transfer Between State Retirement Systems of Phillip Scott.
y. Acceptance of Transfer Between State Retirement Systems of Steven McClellan.
z. Acceptance of Transfer Between State Retirement Systems of Julia Vigil.
aa. Acceptance of Transfer Between State Retirement Systems of David Austin.
bb. Acceptance of Transfer Between State Retirement Systems of David Jensen.
c. Acceptance of Transfer Between State Retirement Systems of Joseph Natale.
\( \text{dd. Acceptance of Transfer Between State Retirement Systems of Peter Micsunescu.} \)
\( \text{ee. Acceptance of Transfer Between State Retirement Systems of Lisa Hale.} \)
\( \text{ff. Acceptance of Transfer Between State Retirement Systems of Elaine Fridlund-Horne.} \)
\( \text{gg. Acceptance of Transfer Between State Retirement Systems of Travis Epperson.} \)
\( \text{hh. Acceptance of Transfer Between State Retirement Systems of Hector Montano.} \)
\( \text{ii. Acceptance of Transfer Between State Retirement Systems of Kenton Stevens.} \)
jj. Approval of the Minutes of the February 24 and February 28 Work Study Session Meetings; and March 1, 2017 Meeting of the PSPRS Board of Trustees.

Mr. Brian P. Tobin

<table>
<thead>
<tr>
<th>MOTION: 1-3/29/17</th>
<th>At 1:11 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To approve the Consent Agenda.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Buividas</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. McNeill</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes: One vacant Board position; Mr. Smith- Excused</td>
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Report by Mr. William Davis, Chairman of the Investment Committee, regarding agenda items 4 through 8 which were discussed at the Investment Committee meeting held today, March 29, 2017 on or after 9:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

   
   Mr. Owen Zhao
   Portfolio Analyst - Risk

   A written report was provided to the Board of Trustees.

5. Written report by Investment Department Staff regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of January 31, 2017; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

   Ms. Vaida Maleckaitė
   Director of Investment Services

   Mr. Martin reported that the Trust increased in February by 1.17%. For the Fiscal Year-to-Date through February, the Trust was up by 8.78%, ahead of the assumed rate of return.

6. Presentation and discussion by Investment Department Staff and Consultants regarding the annual Overview and Strategic Plan for the Fixed Income and Private Credit portfolios.

   Mr. Ryan Parham, Assistant Administrator and Chief Investment Officer
   Mr. Mark Steed, Deputy Chief Investment Officer and Chief of Staff
   Mr. William Thatcher, Lead Portfolio Analyst
   Mr. Allan Martin, NEPC

   Discussion was held regarding the Fixed Income portfolio, including an explanation of why PSPRS has reduced the Fixed Income allocation over time. Discussion was held regarding each investment manager for this portfolio.

   Discussion was held regarding the Private Credit portfolio, and a snapshot of the portfolio was presented. Mr. Martin explained the role NEPC as it relates to the Board and the staff. The structure of the portfolio was also presented.

7. Disclosure by Investment Department Staff of the following manager selection matters:
   A. New and potential investments considered this period:
      1. Disclosure of a potential investment of up to $40 million direct and a reserve allocation of up to $20 million for purposes of co-investment with KKR Asian Fund III, in the Private Equity portfolio, subject to final Staff and legal due diligence.
   B. Disclosure of closed transactions for this period:
      1. Clearbell III (Feeder) LP Fund; Committed amount up to £50 million for direct investment purposes and a reserve allocation of up to £30 million for purposes of co-investment; Date Closed: January 23, 2017. This investment is allocated to PSPRS Asset class: Real Estate.
      2. BioInnovation Capital Partners; Committed amount up to $25 million for direct investment and a reserve allocation of up to $20 million for purposes of co-investment; Date Closed: March 13, 2017. This investment is allocated to PSPRS Asset class: Private Equity.
C. Disclosure of completed transactions:
   1. **Capital Guardian Emerging Markets Fixed-Income Fund.** This investment was allocated to PSPRS Asset Class: Fixed Income.
   2. **Franklin Templeton Emerging Market Debt Opportunities Fund, L.P.** This investment was allocated to PSPRS Asset Class: Fixed Income.
   3. **Fischer Francis Trees & Watts, IMA.** This investment was allocated to PSPRS Asset Class: Risk Parity.

   Jennifer Eichholz, Esq.
   In-House Investment Counsel

   No discussion was held.

8. Review and possible **Action** regarding review of Prohibited Investment List in compliance with PSPRS Israel Boycott Divestment Compliance Policy.

   Jennifer Eichholz, Esq.

   Discussion was held regarding compliance with policy.

Presentation by Mr. Bryan Raines, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 9 through 19, which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, March 29, 2017, on or after 10:30 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

9. Presentation of the Operations Update Report and possible **Action**.

   Mr. Dave DeJonge
   Deputy Administrator

   Ongoing work is being conducted on the website and a new Human Resources manager has been hired. The choice for Tier 2 Defined Contribution Plan is from April 1, 2017 to June 30, 2017.

10. Presentation of the Month-to-Date Budget Report for FY 2017 and possible **Action** on same.

    Mr. John Hendricks
    Manager of Finance and Accounting

    Discussion was held regarding the budget.

11. Presentation of the Local Board & Employer Outreach Report and possible **Action**.

    Mr. Don Mineer
    Local Board Training Coordinator

    Informational meetings are continuing to be held, including webinars and outreach throughout the state.

12. Presentation of the Strategic Plan Progress Report and possible **Action**.

    Mr. John Briney
    Enterprise Systems Architect

    Work on the Strategic Plan is continuing and it is anticipated that it will be presented to the Board next month.

13. Presentation of the Requests for Local Board Rehearing Report for the current month and possible **Action**.

    Ms. Michelle Pechan
    Paralegal

    Four rehearings are being held.
14. Presentation on PSPRS communication efforts and possible Action.  
   Mr. Christian Palmer  
   Communications Director

Videos about pension reform are being produced and provided to constituents, including a video describing Tier 2 opt out which will be ready for viewing in a couple of weeks.

15. Review and discussion regarding law firms' billings for legal services performed in March, 2017.  
   Ivy Voss, Esq.  
   Assistant Attorney General

Law firm billings for legal services performed in March, 2017 were approved by the Operations, Governance Policy and Audit Committee.

16. Review, discussion and possible Action on pending and passed legislative actions and potential legislative proposals.  
   Mr. Jared A. Smout  
   Administrator

The monthly legislative update was provided by Ms. Diane McAllister and Mr. Doug Cole. The PSPRS Administration Bill HB 2485 has passed out of committee and SB 1063 is ready for consideration by the Committee of the Whole in the House. A proposed amendment to SB 1063 regarding large employers’ controllable costs being borne by the employer was discussed. SB 1115 is moving along. EORP discussions are being held due to the importance of fixing the system in a timely manner. Mr. Buividias inquired regarding any concerns the lobbyists may have. Chairman Tobin stated the Board is opposed to the language in the amendment on SB 1442.

17. Review, discussion and possible Action on compliance and internal audit roles.  
   Mr. Jared A. Smout  
   Ms. Lisa Sweeting  
   Continuous Improvement Administrator

Staff is researching the proposed reporting structure for the roles of compliance and internal audit. The possibility of establishing three positions was discussed which would include a Records Officer, a Compliance Officer and an Internal Audit Officer. As a result, these proposed changes will necessitate a change in the Governance Manual.

18. Review, discussion and possible Action with respect to the FY2018 PSPRS Administrative Budget.  
   Mr. Jared A. Smout

A discussion was held regarding the status of various contracts with service providers. Mr. Buividias suggested over the next year to consider reviewing bids for consultants, such as GRS and NEPC, and to set up a systematic schedule in the future for such a process. The difference between a request for proposal and a request for information was discussed.

   Mr. Dave DeJonge

An update to the Governance Manual was recommended for various items, including the list of educational opportunities for the members of the Board of Trustees. The Administrator will keep an updated list of pre-authorized educational opportunities available in order to minimize disruption. Other corrections and clarifications were discussed.
20. Review, discussion and possible Action on the PSPRS Tier 3 actuarial assumptions to be used for the July 1, 2017 rates.

Mr. Jared A. Smout  
Mr. Mark Buis, FSA, FCA, EA, MAAA  
Senior Consultant  
Mr. James D. Anderson, FSA, EA, MAAA  
Senior Consultant  
Mr. Francois Pieterse, A.S.A, M.A.A.A.  
Consultant  
Gabriel, Roeder, Smith & Company

Constituents will begin entering Tier 3 as of July 1, 2017. Discussion was held regarding benefit features, key variables and Tier 3 normal cost results by employer and sensitivity. Tier 3 benefits include the ability to retire at age 55 with 15 years of service, a benefit multiplier of 2.5% at 25 years and lower for less than 25 years, 5 year average pay out of the last 15, a fixed CPI based on Phoenix-Mesa Index capped at 2% if at least 70% funded and a pay cap of $110,000. Key variables that may impact the Normal Cost Rate were also discussed. Normal Cost Rates are expected to be more sensitive to demographic differences than investment returns in the early years. GRS discussed various data points for the Board to consider, including a discount rate of 7.01%, pay cap growth of 1.5%, Normal Cost Rates for FY 2017-18 and FY 2018-2019 based on new entrant profile created for the last 5 years of new hires. The June 30, 2018 valuation will determine rates for FY 2019-2020, which will be the first valuation with actual new hires. The Normal Cost Rate could vary for employers with only a few new hires between July 1, 2017 and June 30, 2018.
Discussion was held regarding those who choose the DC only Disability Program to begin with a 2.34% split 50/50 employer/employee on an after tax basis of 1.17% for each.

**MOTION: 3-3/29/17**
**Motion:**
To adopt a 7.0% discount rate and a 2% salary cap growth rate as different assumptions for the original GRS proposal for the calculations of the Tier 3 rates by July 1, 2017. All other assumptions remain until the Board changes it.

**Moved by:** Mr. Buividas
**Seconded by:** Mr. McNeill
**Discussion:**
Mr. Buividas stated that the goal is to limit volatility, and these proposed rates will get the System closer to actual wage growth, which we will have data for in a couple of years. It will be the set policy until the Board changes it. Chairman Tobin said he is concerned with setting a discount rate lower than our assumed earnings rate, considering that we structure our portfolio to earn 7.4% and not 7.0%. While we wish to set a different discount rate for Tier 3 than Tiers 1 and 2, all assets are pooled at an asset allocation with a target of 7.4%. Is this taking on a new risk and an undue risk for Tier 3 members? Is it acceptable to set a discount rate lower than our assumed earnings rate for a group of people that are not participating in the System yet? Mr. Parham stated that if our assumed earnings rate changed from 7.4% to 7.0%, it would have an impact on the blend of the assets selected. Mr. Buividas questioned whether it be more of a long term issue. Mr. Davis added he understands the goal of being ultra conservative with this new group as a place to start.

**In Favor:** Unanimous
**Motion:**
Passes: One vacant Board position; Mr. Smith and Mr. Scheinert - Excused

Discussion was held regarding those who choose the DC only Disability Program to begin with a 2.34% split 50/50 employer/employee on an after tax basis of 1.17% for each.

**MOTION: 4-3/29/17**
**Motion:**
To adopt the current PSPRS aggregate normal cost rate for disabilities of 2.34% as the total contribution rate for members who choose the DC option. Per statute, the total rate will be split 50/50 employer/employee on an after tax basis which will be 1.17% each.

**Moved by:** Mr. Buividas
**Seconded by:** Mr. Scheidt
**Discussion:** None
**In Favor:** Unanimous
**Motion:**
Passes: One vacant Board position; Mr. Smith and Mr. Scheinert - Excused

21. Review, discussion and possible Action on the PSPRS Actuarial Funding Policy.

Mr. Jared A. Smout
Mr. Mark Buis, FSA, FCA, EA, MAAA
Senior Consultant
Mr. James D. Anderson, FSA, EA, MAAA
Senior Consultant
Mr. Francois Pieterse, A.S.A, M.A.A.A.
Consultant
Gabriel, Roeder, Smith & Company
Discussion was held regarding the actuarial Funding Policy and proposed language changes, including the addition of the following: “The Board recognizes existing legislative guidance related to the funding of PSPRS, CORP and EORP and establishes this Funding Policy to help ensure the systematic funding of the future benefit payments for the members of the Retirement System.

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<tr>
<th>MOTION:5-3/29/17</th>
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<tr>
<td>Motion:</td>
<td>To adopt the change.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Buividas</td>
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<td>Seconded by:</td>
<td>Mr. Raines</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous</td>
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<td>Motion:</td>
<td>Passes: One vacant Board position; Mr. Smith and Mr. Scheinert - Excused</td>
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22. Update and discussion on the progress of the PSPRS DC Committee in the RFP process for a third party administrator/record keeper and possible Action of delegating decision and contractual authority to the Committee and Committee Chair, respectively.

   Mr. William T. Buividas
   Vice Chairman
   Chairman of the Arizona PSPRS Defined Contribution Committee

A summary of the progress that has been made was provided by Mr. Buividas. The Committee will interview the top four finalists tomorrow. Next week, a site visit will be made to the top two finalists and then the System will enter into a contract with the finalist. Mr. Buividas asked for approval to enter into a contract with the finalist.

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<th>MOTION:7-3/29/17</th>
<th>At 3:54 p.m.</th>
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<tr>
<td>Motion:</td>
<td>Approval to execute a contract with the final vendor because they have to</td>
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<td>get the money by July 1, 2017 and work has to be done in the next 90 days.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. McNeill</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. Davis</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<td>In Favor:</td>
<td>Unanimous</td>
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<tr>
<td>Motion:</td>
<td>Passes: One vacant Board position; Mr. Smith and Mr. Scheinert - Excused</td>
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23. Discussion on expanding the PSPRS DC Committee's role to include oversight of the PSPRS DC Disability Program, PSPRS Supplemental Defined Contribution Plan, and the Elected Officials' Defined Contribution Retirement System and Disability Program.

   William T. Buividas

The DC Committee Charter will be sent to the Operations, Governance Policy and Audit Committee for expansion. The DC Committee will oversee the PSPRS DC Disability Program, PSPRS Supplemental Defined Contribution Plan and the Elected Officials’ Defined Contribution Retirement System and Disability Program.

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

   Mr. Brian P. Tobin
Discussion and consultation with legal counsel and Staff and possible Action regarding 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. 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 25.

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), (4) and (7), as applicable, including to receive legal advice from the Board’s attorneys on any matter listed on the agenda, including:

a. Discussion and consultation with legal counsel and Staff regarding matters arising from public record requests or subpoenas, and ongoing or threatened legal action or claims involving the Plans or Trust not otherwise referenced above in Item 24, including but not limited to those involving the status of lawsuits challenging provisions of SB1609, as authorized by A.R.S. §§ 38-431.03(A)(2), (3).

b. Update and discussion on personnel matters, as authorized by A.R.S § 38-431.03(A)(1).

Executive Session ended at 2:42 p.m.

27. Schedule future meeting date(s). (Currently scheduled for Wednesday, April 26, 2017.)

The next meeting will be held on Wednesday, April 26, 2017.

28. Adjournment.

The meeting was adjourned at 4:04 p.m.