PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

May 31, 2017

MINUTES

Present:
Mr. Brian Tobin, Chairman, Trustee
Mr. William T. Buivid, 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
Mr. Donald A. Smith, Jr., Trustee

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
Mr. John Briney, Enterprise Systems Architect
Ms. Patricia Shaner, Human Resources Manager
Ms. Diane McAllister, Public Policy Partners
Mr. Doug Cole, HighGround
Ms. Courtney McKinstry, HighGround
Mr. Allan Martin, NEPC, LLC.
Mr. Bob Smith, Client Advisor, Bridgewater
Mr. James L. Haskel, Senior Portfolio Strategist, Bridgewater
Dr. Roberto Croce, Head of Quantitative Strategies, Salient Capital Partners
Ms. Blair Batson, Director of Institutional Investments, Salient Capital Partners

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

   Mr. Brian P. Tobin
   Chairman

The meeting was called to order by Chairman Tobin at 12:34 P.M. The Pledge of Allegiance was recited and roll was called.

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 at 12:36 P.M. A second Call to the Public was held at 4:28 P.M. Mr. Jim Mann, Fraternal Order of Police, Executive Director addressed the Board of Trustees regarding Agenda item 25.
3. **Appropriate Action** for approval of the items on the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.

   b. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Donn G. Kessler.
   e. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Patricia K. Norris.
   g. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of John (Jack) W. Sellers.
   i. Acceptance of Transfer Between State Retirement Systems of Marcus Steele.
   j. Acceptance of Transfer Between State Retirement Systems of Travis Smith.
   k. Acceptance of Transfer Between State Retirement Systems of Peggy O'Shea.
   l. Acceptance of Transfer Between State Retirement Systems of Thorry Smith.
   m. Acceptance of Transfer Between State Retirement Systems of Juan Moronez.
   n. Acceptance of Transfer Between State Retirement Systems of Ben Keating.
   o. Acceptance of Transfer Between State Retirement Systems of Jesse Twila.
   p. Acceptance of Transfer Between State Retirement Systems of Ronald Lilley.
   q. Acceptance of Transfer Between State Retirement Systems of Michael Mannino.
   r. Acceptance of Transfer Between State Retirement Systems of Bryan Jeffries.
   s. Acceptance of Transfer Between State Retirement Systems of Anton Diefert.
   t. Acceptance of Transfer Between State Retirement Systems of Jeremy Martin.
   u. Acceptance of Transfer Between State Retirement Systems of Mark Sullivan.
   v. Acceptance of Transfer Between State Retirement Systems of Monica Rios.
   w. Acceptance of Transfer Between State Retirement Systems of David Windsor.
   x. Acceptance of Transfer Between State Retirement Systems of Michael Beller.
   y. Acceptance of Transfer Between State Retirement Systems of Jeffrey Gilbert.
   z. Acceptance of Transfer Between State Retirement Systems of Scott Mueller.
   aa. Acceptance of Transfer Between State Retirement Systems of Shane Spravzoff.
   bb. Acceptance of Transfer Between State Retirement Systems of King Brewster.
   cc. Approval of the Minutes of the April 26, 2017 Meeting of the PSPRS Board of Trustees.

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**MOTION:1-5/31/17**

At 12:36 P.M.

Motion: To approve the Consent Agenda as presented.

Moved by: Mr. Davis

Seconded by: Mr. McNeill

Discussion: None

In Favor: Unanimous

Motion: Passes

*Mr. Brian P. Tobin*
4. Appropriate **Action** regarding the approval of Daisy Mountain Fire District's request to increase amortization period.

   *Mr. Brian P. Tobin*

   **MOTION:2-5/31/17**
   At 12:37 P.M.
   Motion: To accept Daisy Mountain Fire District’s request.
   Moved by: Mr. Raines
   Seconded by: Mr. Smith
   Discussion: None
   In Favor: Unanimous
   Motion: Passes

5. Appropriate **Action** regarding the approval of Superstition Fire and Medical District's request to increase amortization period.

   *Mr. Brian P. Tobin*

   **MOTION:3-5/31/17**
   At 12:38 P.M.
   Motion: To approve Superstition Fire and Medical District’s request to increase amortization period.
   Moved by: Mr. Buividis
   Seconded by: Mr. Scheidt
   Discussion: None
   In Favor: Unanimous
   Motion: Passes

Report by Mr. William C. Davis, Chairman of the Investment Committee, regarding agenda items 6 through 11, which were discussed at the Investment Committee meeting held today, May 31, 2017, on or after 9:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

6. Presentation and report by Investment Department Staff regarding Portfolio Risk as of March 31, 2017.

   *Mr. Owen Zhao*
   *Portfolio Analyst – Risk*

   There have been no significant changes in the System’s portfolio since the prior month.

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

   *Ms. Vaida Maleckaite*
   *Director of Investment Services*

   Month-end and Fiscal Year-to-date financial results were discussed. Estimated April returns were included.

8. Presentation and discussion by NEPC representative(s) on the 3rd Fiscal Quarter (1st Calendar Quarter) investment performance and the 2016-2017 Fiscal Year investment performance for the Arizona PSPRS Trust.

   *Mr. Allan Martin*
   *NEPC, LLC.*
Mr. Allen Martin discussed the financial performance of the System’s portfolio for the periods presented.

9. Presentation and discussion by Investment Department Staff and Consultants regarding the Annual Overview and Strategic Plan for the Risk Parity portfolio.

   Mr. Ryan Parham, Assistant Administrator and Chief Investment Officer
   Mr. Bob Smith, Client Advisor, Bridgewater
   Mr. James L. Haskel, Senior Portfolio Strategist, Bridgewater
   Dr. Roberto Croce, Head of Quantitative Strategies, Salient Capital Partners
   Blair Batson, Director of Institutional Investments, Salient Capital Partners

Discussion was held regarding the Risk Parity asset class and how the Risk Parity portfolio is structured to generate a return that is higher than cash on hand. Balanced exposure to assets within this class and between asset classes are utilized so as to maintain return levels in markets over time and to cushion cyclicality, thus making it easier to plan for the future. Discussion was held regarding the value of low and high correlations of investments within specific economic markets over time in order to improve performance through adaptation to the economic environment.

10. Introduction to Asset Allocation.

   Mr. Ryan Parham
   Mr. Allan Martin

Discussion was held regarding possible changes in asset class allocations, levels of investment, ranges and benchmarks of each asset class to be reviewed. PSPRS Staff and NEPC developed possible sample portfolios with small changes and with slightly more risk for higher returns. It was concluded that the current portfolio mix is well diversified with good possibility to do well in the current economic environment. The members of the Investment Committee suggested some possible changes to present for Board consideration at the next meeting.

11. Disclosure by Investment Department Staff of the following Manager Selection Matters:

   A. New and Potential Investments Considered this Period:
      1. Disclosure of a potential investment of up to $60 million direct and a reserve allocation of up to $40 million for purposes of co-investment with Orion Mine Finance Fund II, in the PSPRS Real Assets portfolio, subject to final Staff and legal due diligence.
      2. Disclosure of a potential increase in a current investment of up to an additional $25 million for direct investment with Fundamental Partners III, L.P., in the PSPRS Real Assets (Core Capital) portfolio, subject to final Staff and legal due diligence.
      3. Disclosure of a potential investment of up to $50 million direct and a reserve allocation of up to $25 million for purposes of co-investment in the Sabal / SIA Debt Opportunities Fund, L.P., in the PSPRS Private Credit portfolio, subject to final Staff and legal due diligence.
      4. Disclosure of a potential investment of up to $80 million for direct investment purposes with EnCap Energy Capital Fund XI, L.P., in the PSPRS Real Assets (Energy) portfolio, subject to final Staff and legal due diligence.

   B. Finalized and Executed Transactions During Prior Period:
      1. Comvest Capital IV, L.P.; Committed amount up to $50 million direct. Date Closed: April 17, 2017; This investment is allocated to PSPRS Asset Class: Private Credit.
      2. Transfer of current investment (100% deselection) from Bridgewater Real Asset Fund for purposes of direct investment in Bridgewater All Weather Fund, in the PSPRS Asset Class Risk Parity.

   C. Investments Completely Liquidated During Prior Period:
      1. OZ Domestic Partners II, LP (Och-Ziff Capital Management Group/Oz Master Fund, Ltd.); Date of original investment: October 1, 2010; This investment was allocated to PSPRS Asset class: Absolute Return.
No discussion was held.

Presentation by Mr. Bryan Raines, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 12 through 23, which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, May 31, 2017, on or after 10:30 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

   Mr. Dave DeJonge  
   Deputy Administrator

   Background information is included in the information provided for the Board members.

13. Presentation of the Month-to-Date Budget Report for FY 2017 and possible Action on same.
   Mr. John Hendricks  
   Manager of Finance and Accounting

   It was reported that the budget is currently on track.

14. Presentation of the Local Board & Employer Outreach Report and possible Action.
   Mr. Don Mineer  
   Local Board Training Coordinator

   Background information is included in the information provided for the Board members.

15. Presentation of the Strategic Plan Progress Report and possible Action.
   Mr. John Briney  
   Enterprise Systems Architect

   The Strategic Plan is to be presented during the Board of Trustees meeting next month.

16. Presentation of the Requests for Local Board Rehearing Report for the current month and possible Action.
   Ms. Michelle Pechan  
   Paralegal

   There are four requests, two are carry overs and two are new requests.

17. Presentation on PSPRS communication efforts and possible Action.
   Mr. Christian Palmer  
   Communications Director

   The PSPRS Staff is utilizing videos and e-mail to provide updates and information to members. Member access has improved.

18. Presentation of HR Report and possible Action.
   Ms. Patricia Shaner  
   Communications Director

   Training opportunities for PSPRS Staff and members of the Board of Trustees have been identified.
19. Review and discussion regarding law firms’ billings for legal services performed in April.

Ivy Voss, Esq.
Assistant Attorney General

Payment for legal services performed in April was approved during the Operations, Governance Policy and Audit Committee meeting this morning.

20. Review, discussion and possible Action on pending and passed legislative actions, potential legislative proposals and update on PSPRS, CORP and EORP pension reform measures.

Mr. Jared A. Smout
Administrator

Discussion was held regarding legislative Bills that have passed and have been signed by the Governor regarding PSPRS, CORP and EORP. HB 2485 – the PSPRS Administrative Bill, passed, allowing employers to ask the Board of Trustees, through formal resolution, for an increase in their individual amortization period up to 30 years. Additional signed bills include SB 1115, regarding retirement benefit calculations, SB 1442, regarding CORP modifications, and SB1063, regarding risk pooling.

Discussion was held regarding fiduciary responsibility as to EORP’s current funding level, options for restructuring and how best to accomplish this goal.

21. Review, discussion and possible Action with respect to the FY 2018 PSPRS Administrative Budget.

Mr. Jared A. Smout

The draft budget presented to the Board includes possible additions to the Staff, a change in the legal structure of the ownership of the building, and revisions to the Organization Chart.

22. Review, discussion and possible Action on Governance Manual updates.

Mr. Dave DeJonge

Various modifications to the System’s Governance Manual were approved.

<table>
<thead>
<tr>
<th>MOTION:6-5/31/17</th>
<th>At 3:44P.M.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To adopt the recommendations of the Operations, Governance Policy and Audit Committee.</td>
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<tr>
<td>Moved by:</td>
<td>As approved by the Operations, Governance Policy and Audit Committee.</td>
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<tr>
<td>Seconded by:</td>
<td>--------------</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

23. Review, discussion and possible Action on Due Diligence report.

Mr. David Pliskin
Senior Accountant

Information was provided as to two findings of the Auditor General that have been rectified.

24. Presentation by Cavanaugh Macdonald Consulting, LLC representative regarding the results of the actuarial audit for the PSPRS, CORP and EORP.

Brent A. Banister, Ph.D., FSA, EA, MAAA, FCA
Chief Pension Actuary
Cavanaugh Macdonald Consulting (CMC) reviewed the GRS 2016 valuations and the 2017 experience study. It was stated that calculations for actuarial audits are very complex and variable. Professional judgement is involved and the goal is to assist with ways to improve the process. During the past years, legislative rules have continued to change, which is challenging.

CMC stated that one assumption is not enough information to base an opinion regarding the COLA/PBI and, therefore, it is not discussed in the presentation of the experience study. The members of the Board stated that this issue is very complex and they would like more details regarding how the PBI was determined in the past, the mechanics and correctness of the calculations and the determination of the allocations of the assets or liabilities. This would be additional information regarding the June 2016 valuation and the 2017 experience study.

Other economic assumptions such as inflation, discount rate and wage growth were discussed by CMC as well as mortality, retirement, disability, terminations, salary scale, cost method, asset smoothing, amortization methods and valuation calculations. CMC stated that they considered the assumptions and methods to be generally appropriate and that the calculations present a reasonable assessment of the funded status and finding requirements based on adopted assumptions and methods.

25. Discussion and possible Action regarding the letter received from Governor Doug Ducey concerning the ninth Trustee nominations.

Mr. Brian P. Tobin

One name of the three names submitted by the Board of Trustees to Governor Ducey has been disqualified. Discussion was held as to how to respond to the letter from the Governor regarding the appointment of the ninth Board Member.

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<thead>
<tr>
<th>MOTION: 5-5-31/17</th>
<th>At 2:30 P.M.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To direct the Chairman to send a response back to the Governor to select the ninth Trustee from the two remaining names.</td>
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<tr>
<td>FRIENDLY AMENDMENT:</td>
<td>We believe two other names are not qualified of the set of five. One is a member of the System and one is on another board so we are sending two names back.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Scheinert</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. Scheidt</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Messrs. Scheidt, Scheinert, Raines, Buividas, Smith and Davis</td>
</tr>
<tr>
<td>Nays:</td>
<td>Messrs. McNeill and Tobin</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes 6 to 2</td>
</tr>
</tbody>
</table>

26. Discussion and possible Action on amending the Supplemental DC Plan document to allow for loans.

Mr. William T. Buividas
Vice Chairman

Chairman of the Arizona PSPRS Defined Contribution Committee

Discussion to amend the Supplemental DC Plan document and to provide the Supplemental DC Plan the authority to allow loans beginning July 1, 2017.
Mr. Jim Keeler, Nationwide stated that the interest rate can be determined by the committee.

27. Update and discussion on the progress of the PSPRS DC Committee, including the contract for an education provider.  

   Mr. William T. Buividas

The Education Provider has been selected, which is Public Safety Financial/Galloway. Their information is being integrated into the System. All education elements will be reviewed prior to use. An RFP for an annuity provider is in progress and is to be chosen by the end of June.

28. 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 for training.

29. 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 30.

MOTION: 8/31/17  At 3:57 P.M.  
Motion: To direct legal counsel to negotiate settlement of attorneys’ fees in the Russo matter.  
Moved by: Mr. Buividas  
Seconded by: Mr. Scheinert  
Discussion: None  
In Favor: Unanimous  
Motion: Passes

MOTION: 9-5/31/17  At 3:57 P.M.  
Motion: To file an amicus brief in the Court of Appeals referencing the Anton Orlich case v Desert Troon.  
Moved by: Mr. Buividas  
Seconded by: Mr. Davis  
Discussion: None  
In Favor: Unanimous  
Motion: Passes
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 29, 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) and (3).

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

c. Discussion and consultation with legal counsel regarding the letter received from Governor Doug Ducey concerning the ninth Trustee nominations, as authorized by A.R.S. § 38-431.03(A)(4).
31. Schedule future meeting date(s). *(Currently scheduled for Wednesday, June 28, 2017.)*

The next meeting is scheduled for Wednesday, June 28, 2017. Discussion was held regarding date(s) for the Annual Meeting tentatively set for September 28, 29, 2017.

32. Adjournment.

The meeting was adjourned at 4:31 P.M.

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MOTION:4-5/31/17

**Motion:**

To recess Open Session and enter Executive Session pursuant A.R.S. §§ 38-431.03 (A)(1), (2), (3), (4) and (7) as set forth in item 30.

**Moved by:**

Mr. Buividas

**Seconded by:**

Mr. Raines

**Discussion:**

None

**In Favor:**

Unanimous

**Motion:**

Passes

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Brian P. Tobin, Trustee, Chairman

William T. Buividas, Trustee, Vice Chairman

William C. Davis, Trustee

Edward J. McNeill, Trustee

Bryan Raines, Trustee

Mike Scheidt, Trustee

Dean M. Scheinert, Trustee

Donald A. Smith, Jr., Trustee