PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

May 28, 2014

MINUTES

Present: Mr. Brian Tobin, Chairman, Trustee
Mr. Gregory Ferguson, Vice Chairman, Trustee – Joined at 9:16 a.m.
Mr. Jeff McHenry, Trustee - Excused
Ms. Randie Stein, Trustee.
Mr. Richard Petrenka, Trustee
Mr. Lauren Kingry, Trustee
Mr. William Davis, Trustee

Others Present: Mr. Jim Hacking, Administrator
Mr. Jared Smout, Deputy Administrator
Mr. Ryan Parham, Chief Investment Officer
Mr. Marty Anderson, Deputy Chief Investment Officer
Ms. Ivy Voss, Assistant Attorney General
Mr. Shan Chen, Lead Portfolio Manager - Excused
Mr. Mark Steed, Lead Portfolio Manager and Chief of Staff
Ms. Vaida Maleckaite, Investment Operations Analyst
Mr. Mark Lundin, Deputy Chief Investment Officer
Ms. Leslie Clark, Senior Financial Accountant/Great Plains DBA
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock
Mr. Allan Martin, Partner, NEPC, LLC
Ms. Bridget Feeley, Internal Audit and Compliance Officer - Excused
Mr. Doug Cole, HighGround
Mr. Mark Buis, Gabriel, Roeder, Smith and Company, FSA, FCA, EA, MAAA, Senior Consultant
Mr. James D. Anderson, Gabriel, Roeder, Smith and Company, FSA, EA, MAAA, Senior Consultant

1. Call to Order; Roll Call; Opening remarks

The meeting was called to order at 9:06 a.m.

Mr. Tobin indicated that today’s Board meeting will be recessed at 11:30 a.m. but will resume at 1:00 p.m. Chairman Tobin called for a moment of silence for Mr. Cabrerra who died last week in the line of duty on the Salt River Pima Indian Community.

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.

A Call to the Public was announced at 1:03 p.m. with no response.

A second Call to the Public was announced at 2:18 p.m.

Mr. Charles Sullivan of the Maricopa County Sheriff’s Office asked why an initiative similar to the PFFA’s initiative for PSPRS has not been developed for the CORP?

Mr. Jim Mann, the Executive Director of the Fraternal Order of Police (FOP) stated that the public safety groups have been working with the System to develop an initiative for the CORP, but he indicated that further work is needed.

Mr. Tim Hill reported that the Secretary of State’s Office has indicated that the drop dead date for getting the PFFA PSPRS initiative on the November ballot is July 3, 2014.

Mr. Will Buividas, Treasurer of PLEA and APA said they have not taken an official position on the fire fighters’ proposal.

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 survivor benefit of Gloria Casillas.

c. Acceptance of Elected Officials’ Retirement Plan of termination of early retirement benefit of Robert P. Casillas.

d. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Daphne Coppinger.

e. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Paul B. Johnson.


g. Acceptance of Elected Officials’ Retirement Plan of survivor benefit of Peggy Riley.

h. Acceptance of Elected Officials’ Retirement Plan of termination of early retirement benefit of Richard J. Riley.


k. Acceptance of Elected Officials' Retirement Plan of termination of normal retirement benefit of Stan Turley.

l. Acceptance of Elected Officials' Retirement Plan of normal retirement benefit of Maria Del Mar Verdin.

m. Acceptance of Transfer Between State Retirement Systems of James L. Hill.

n. Acceptance of Transfer Between State Retirement Systems of John Wagner.

o. Acceptance of Transfer Between State Retirement Systems of Steven Butler, Jr.

p. Acceptance of Transfer Between State Retirement Systems of Jeffrey Driscoll.

q. Acceptance of Transfer Between State Retirement Systems of Mark Enriquez.

r. Acceptance of Transfer Between State Retirement Systems of Gregory Anderson.

s. Acceptance of Transfer Between State Retirement Systems of Leonard Miller.

t. Acceptance of Transfer Between State Retirement Systems of Ryan Ostberg.

u. Acceptance of Transfer Between State Retirement Systems of Kelly Schemers.

v. Acceptance of Transfer Between State Retirement Systems of Jennifer Hanson.

w. Acceptance of Transfer Between State Retirement Systems of Julie Rodriguez.

x. Acceptance of Transfer Between State Retirement Systems of Jesse Johnson.

y. Acceptance of Transfer Between State Retirement Systems of Wendel Jones.

z. Acceptance of Transfer Between State Retirement Systems of Mark Kincannon.

aa. Acceptance of Transfer Between State Retirement Systems of John Barsalou.

bb. Acceptance of Transfer Between State Retirement Systems of Bruce LeBouf.

cc. Acceptance of Transfer Between State Retirement Systems of Paul H. Moore.

dd. Acceptance of Transfer Between State Retirement Systems of Ralph Nunez.


gg. Acceptance of Transfer Between State Retirement Systems of Steve Boltz.

hh. Acceptance of Transfer Between State Retirement Systems of Duane Aubuchon.

ii. Acceptance of Transfer Between State Retirement Systems of Richard Houser.

jj. Acceptance of Transfer Between State Retirement Systems of Ryan Staab.

kk. Acceptance of Transfer Between State Retirement Systems of Candy Bowen.

ll. Acceptance of Transfer Between State Retirement Systems of Patricia O'Connor.

mm. Acceptance of Transfer Between State Retirement Systems of Rick Crouch.

nn. Acceptance of Transfer Between State Retirement Systems of Stacy McReynolds.

oo. Acceptance of Transfer Between State Retirement Systems of Jennie Logan.

pp. Acceptance of Transfer Between State Retirement Systems of Patti Elzer.

qq. Acceptance of Transfer Between State Retirement Systems of Justin Stillman.


ss. Acceptance of Transfer Between State Retirement Systems of Kimberley Hutchison.

tt. Acceptance of Transfer Between State Retirement Systems of Jerry Weigert.

uu. Acceptance of Transfer Between State Retirement Systems of Mark S. Cousins.

vv. Acceptance of Transfer Between State Retirement Systems of Alan Blume.

ww. Acceptance of Transfer Between State Retirement Systems of Lamar Rushing.

xx. Acceptance of Transfer Between State Retirement Systems of Paul D. Matson.

yy. Acceptance of Transfer Between State Retirement Systems of Randall Force.

zz. Acceptance of Transfer Between State Retirement Systems of Echo Fulton.

aaa. Acceptance of Transfer Between State Retirement Systems of Dennis Rhodes.

bbb. Acceptance of Transfer Between State Retirement Systems of Shane McFarland.
ccc. Acceptance of Transfer Between State Retirement Systems of Lamont Adams.
ddd. Acceptance of Transfer Between State Retirement Systems of Harry Grizzle.
eee. Acceptance of Transfer Between State Retirement Systems of Arned Hernandez.
fff. Acceptance of Transfer Between State Retirement Systems of Kelly Schemers.
ggg. Acceptance of Transfer Between State Retirement Systems of Darlene Carpenter.

MOTION: 1 – 5/28/14
Motion: At 2:34 p.m.
To move to approve the Consent Agenda as presented.
Moved by: Mr. Ferguson
Seconded by: Mr. Davis
Discussion: None
In Favor: Unanimous
Motion: Passes

4. Appropriate Action regarding the Minutes of the April 23, 2014 Meeting of the PSPRS Board of Trustees.

Mr. Brian P. Tobin

MOTION: 2 – 5/28/14
Motion: At 2:34 p.m.
To move to approve the Minutes of the April 23, 2014 Meeting of the PSPRS Board of Trustees as presented.
Moved by: Mr. Ferguson
Seconded by: Mr. Davis
Discussion: None.
In Favor: Unanimous
Motion: Passes

5. Presentations by Investment Consultants and Investment Staff regarding fees in the PSPRS Investment Portfolio.

Mr. Ryan Parham
Chief Investment Officer

Mr. Parham stated that investment fees have been a topic of discussion on a national and international level. He indicated that a StepStone representative would present information regarding private equity fee structures and that an Albourne representative would review hedge fund fee structures. ORG's representative would review real estate fee structures and NEPC would conclude by describing the fee structures associated with portfolios of publically traded securities.

Mr. Jay Rose of StepStone discussed private equity management, transaction, and monitoring fees. He described how fees vary over the life cycle of a fund and how they vary given the size of a fund. Additionally, he reviewed the difference between general and limited partners and the sequence in which proceeds from the sale of a portfolio company are distributed between the general and limited partners.

Albourne’s representative, Mr. Lincoln Smith, spoke regarding hedge fund management, performance and other fees. He presented examples of other fee structures.
ORG’s representative, Ms. Barbara McDowell, discussed real estate maintenance, asset management and incentive fees. She described the typical structure of a real estate transaction and the fee payment schedule. She also described property management and property management fees.

At approximately 2:50 p.m. Mr. Martin made his presentation.

Mr. Allan Martin, Partner with NEPC, spoke regarding fees paid with respect to portfolios of publically traded securities. Among the topics discussed were flat fees, tier or asset based fees and performance based fees. He presented information about public equity fee statistics, including weighted averages for all U. S. and international equities and he gave a review of fixed income/long only fee statistics. Additionally, he spoke about opportunistic credit draw down/illiquid fee structures and hedge fund fee structures.

The Board of Trustees meeting was recessed at 11:30 a.m. and resumed at 1:00 p.m.

6. Report by Investment Department Staff regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of March 31, 2014; (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

Ms. Vaida Maleckaite
Sr. Investment Operations Analyst

A written report was given to the Trustees.

7. Report by Investment Department Staff regarding Portfolio Risk as of May 16, 2014.

Mr. Mark Lundin
Deputy Chief Investment Officer – Risk

A written report was given to the Trustees.

8. Report by NEPC representative(s) on the Third Fiscal Quarter (First Calendar Quarter) investment performance for the PSPRS Trust.

Mr. Allan Martin, Partner
NEPC, LLC

Mr. Martin reported that over the last twelve months, the total Fund performance surpassed the 7.85% assumed rate of return with a return of 11.3%. Over the last three years the Fund returned 7.3% per annum. Performance for the past five years was 13.1% which ranked in the fourth quartile of the peer group universe. Discussion was held about asset allocation versus policy targets. He pointed out that all asset groups are within the Board approved ranges.

9. Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of March 31, 2014.

Ms. Bridget Feeley
Internal Audit and Compliance Officer

The Trustees were told that there are no compliance issues. Mr. David Pliskin was introduced as the second auditor in the Internal Audit and Compliance Department.
Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 10. through 20., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, May 28, 2014, on or after 11:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

10. Presentation of the Month-to-Date Budget Report for FY 2014 and possible Action on same.

   Mr. John Hendricks
   Manager of Finance and Accounting

   The budget is forecast to be 6.96% over for the year.

11. 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

   The Local Board Training Program newsletter has been sent to the members of the Board.

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

   Mr. Jim Hacking
   Administrator

   There is one request still outstanding.

13. Review and discussion regarding law firms’ billings for legal services performed in April, 2014.

   Mr. Jim Hacking

   $247,334.61 was approved for payment for law firms’ legal billings for April, 2014 by the Operations, Compliance and Audit Committee.


   Ms. Bridget Feeley

<table>
<thead>
<tr>
<th>MOTION: 4 – 5/28/14</th>
<th>At 5:05 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To accept the recommendation of the Operations, Governance Policy and Audit Committee to approve the FY 2014 and FY 2015 Compliance and Internal Audit Plan and Five Year Plan.</td>
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<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
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<td>Seconeded by:</td>
<td>As approved by the Operations, Governance Policy and Audit Committee.</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</td>
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15. Discussion and possible **Action** to approve, disapprove or modify the Assumed Earnings Rate for the fiscal year beginning July 1, 2014.

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

   **MOTION: 5 – 5/28/14**
   At 5:15 p.m.
   **Motion:**
   To accept the recommendation of the Operations, Governance Policy and Audit Committee to leave the Assumed Earnings Rate for the fiscal year beginning July 1, 2014 at 7.85%.
   **Moved by:** Mr. Ferguson
   **Seconded by:** As recommended by the Operations, Governance Policy and Audit Committee.
   **Discussion:** None.
   **In Favor:** Unanimous
   **Motion:** Passes

16. Update, discussion, and possible **Action** on the Fire Fighters and Peace Officer Cancer Insurance Policy Program to include the Corrections Officers.

   *Mr. Jared A. Smout*

   Work will continue regarding this agenda item.

17. Consideration of, and possible **Action** on, the FY 2015 PSPRS Administrative Budget.

   *Mr. Jim Hacking*

   Mr. Hacking indicated that there are two versions of the Administrative Budget for FY’15. Plan A includes several range adjustments for certain staff members who are below the mid-point of their salary range. However, these in-range adjustments are subject to the approval of ADOA. Budget Plan B is the same as Plan A, except that it does not contain the in-range adjustments. There is a difference of $100,000 between the two Budget Plans.

   **MOTION: 6 – 5/28/14**
   At 5:20 p.m.
   **Motion:**
   To approve Budget Plan A and to submit the in-range adjustments to ADOA for approval; if ADOA does not approve, we will revert to Budget Plan B.
   **Moved by:** Mr. Ferguson
   **Seconded by:** As recommended by the Operations, Governance Policy and Audit Committee.
   **Discussion:** None.
   **In Favor:** Unanimous
   **Motion:** Passes


   *Mr. Jim Hacking*

   Mr. Hacking reported that there is a new staff member in the Internal Audit and Compliance area and a new health insurance specialist in the Benefits area. A Knowledge Information Manager has been hired, and an agreement has been signed for a new in-house investment counsel, who is expected to start on or about August 1st. He
also indicated that interviews are being conducted to fill the investment accountant position.

19. Report and possible Action on the ballot initiative with respect to constitutional amendment(s) and conforming statutory changes designed to improve significantly the financial status of one or more of the PSPRS - administered plans.

Mr. Jim Hacking

Mr. Tim Hill, President of the Professional Fire Fighters of Arizona (PFFA) presented information regarding a proposal by his organization that would impact the PSPRS Plan. The proposal would substitute a new COLA mechanism funded primarily from member contributions for the current COLA mechanism that is funded from a portion of investment returns. Mr. Hill described how, in 2011, the legislature attempted to deal with the COLA issue but the method adopted ran counter to the AZ Constitution’s prohibition against “impairment or diminishment” of benefits and was ruled unconstitutional by the AZ Supreme Court in the Fields case. Since the Fields case decision will necessarily increase significantly the already high employer contribution rates, the PFFA concluded that the much higher rates are not sustainable. This is what motivated the PFFA to look for a solution to the COLA issue that would help the fund. Mr. Hill told the Board that the PFFA proposal, which would modify the provisions of SB1609, would have a good chance of withstanding a constitutional challenge and would restore funding levels without the employers having to endure crippling contribution rates. He said that this proposal provides for two tiers of employees, one pre-SB1609 group and one after. DROP would be renamed the Employee Self-Funded Inflation Protection Program. With this proposal, the member contribution rate would remain at a total of 11.65%. However, only 7.67% would go to the main PSPRS fund. The additional 4% would be allocated to the new employee funded COLA account. Mr. Hill presented the specific details of the proposal.

Mr. Hill said that his organization has asked the Governor to call a special session so that this proposal can be approved by the legislature and presented to the voters via the November ballot. The voters would be asked to approve an amendment to Article XXIX that would read: “The benefits of the beneficiaries shall neither be diminished nor impared except for the provisions in Bill # - - - - as passed by the legislature in 2014”. Mr. Hill concluded by saying that a statewide campaign would be undertaken by the PFFA with the help of other groups and he urged the Board to lend its support by authorizing the System’ Administrator, lobbyists and actuaries to provide assistance.

Representing HighGround, Mr. Doug Cole said that the Governor had been asked to call a special session in June in order to make the deadline for putting this onto the November ballot. He said that the Governor’s Office is looking for guidance from the PSPRS. If the PSPRS approves of the initiative, they would expect the PSPRS to help by providing actuarial and other data.

20. Consideration of and possible Action on an amendment to the contract with the Attorney General's Office to convert from half time to full time the position held by Ms. Ivy Voss.

Mr. Jim Hacking
MOTION: 7 – 5/28/14
At 5:26 p.m.
Motion: To accept the recommendation of the Operations, Governance Policy and Audit Committee for an amendment to the contract with the Attorney General’s Office to convert from half time to full time the position held by Ms. Ivy Voss.
Moved by: Mr. Ferguson
Seconded by: As recommended by the Operations, Governance Policy and Audit Committee.
Discussion: None
In Favor: Unanimous
Motion: Passes

21. Presentation by Gabriel, Roeder, Smith & Company (GRS) about the financial impact on the PSPRS - administered plans of the Arizona Supreme Court decision in the Fields case, and techniques to reduce employer contribution rate volatility and possible Action by the Board on any GRS recommendations.

Mr. Mark Buis, FSA, FCA, EA, MAAA
Senior Consultant
Mr. James D. Anderson, FSA, EA, MAAA
Senior Consultant

Discussion topics included the effect of the Fields case decision on the PSPRS Plans, the impact of the new GASB accounting standards for governmental plans, the special situation of the EORP which is closed to new hires, and what can be done regarding funding policy. The actuaries also discussed possible changes to the amortization period and suggested that the Board should consider a three year phase-in of the higher employer contribution rates that will be required as a result of the Fields case decision.

22. 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.

23. 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, internal investigations (including those arising from UNITE HERE!’s allegations concerning ORG Portfolio Management) 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, Jack Cross, Anton Orlich, the Pivotal Group, the Seldins, Stroh Ranch Development, Timbervest, Jennifer Wright, Desert Troon Companies, the Arizona Republic, Judicial Watch, Crain Publications (Pensions and Investments Magazine), Jennifer Wright, Mark Selfridge, Paul Corens, Stacy Alcott, and Michele Weigand, as well as claims raised by the survivors of deceased fire fighters John Percin, Jr., Sean Misner and Garret Zuppiger. 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 24.
**MOTION: 3 – 5/28/14**

At 3:03 p.m.

**Motion:** To move to recess Open Session and enter Executive Session.

**Moved by:** Ms. Stein

**Seconded by:** Mr. Petrenka

**Discussion:** None.

**In Favor:** Unanimous

**Motion:** Passes

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*Open Session was resumed at 4:10 p.m.*

24. **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 obtain legal advice from the Board’s attorneys on any matter listed on the agenda, including:**

   a. Status report from Ben Cooper of Steptoe & Johnson LLP regarding the four (4) lawsuits challenging provisions of Senate Bill 1609, which lawsuits involve judges Thompson and Hall, retired judges Fields and Lankford, retired police officers Rappleyea and Everson, and police officers Parker, Griego, Manganiello and Robles, as authorized by A.R.S. § 38-431.03(A)(4).

   b. Discussion with legal counsel (and possible recommendation to the Board of Trustees) regarding IRS determination letter requests and legal developments, claims and issues (including settlement discussions) involving investment-related public record requests as well as the Trust and Plans’ contracts and investments, including legal matters concerning the Trust’s custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Trust’s investment managers or joint venturers), as authorized by A.R.S. §§ 38-431.03(A) (2), (3), (4) & (7). Matters discussed may include claims or potential claims by, against or involving (or issues concerning) Stroh Ranch Development, Timbervest, the Pivotal Group, Desert Troon Companies, Judicial Watch, Crain Publications (Pensions and Investments Magazine), the Arizona Republic, and/or Millard and Scott Seldin. Discussion may also include the Trust’s negotiations regarding disposition of its joint venture real estate portfolios, as authorized by A.R.S. §38-431.03(A)(7).

   c. Discussion and consultation with legal counsel and Staff regarding internal investigations (including those arising from UNITE HERE!’s allegations concerning ORG Portfolio Management), public record requests, and ongoing or threatened legal action involving the Plans or Trust not otherwise referenced above, including claims involving employee bonuses and plan valuations, Jack Cross, Anton Orlich, Ken Fields, Jennifer Wright, Mark Selfridge, Paul Corens, Stacy Alcott, and Michele Weigand, as well as claims raised by the survivors of deceased fire fighters John Percin, Jr., Sean Misner, and Garret Zuppiger, all as authorized by A.R.S. §§ 38-431.03(A) (2), (3) and (4).

25. **Set the next meeting date. (Currently scheduled for Wednesday, June 25, 2014.)**

The next meeting will be held on Wednesday, June 25, 2014.
   The meeting was adjourned at 5:27 p.m.

________________________________________
Brian P. Tobin, Chairman

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

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Excused                                    Richard J. Petrenka, Trustee
   Jeff Allen McHenry, Trustee

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