Call to Order; Roll Call; Opening remarks

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

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.

   a. Acceptance of Elected Officials’ Retirement Plan of termination of survivor benefit of Teresa O’Haco.
   b. Acceptance of Elected Officials’ Retirement Plan of early retirement benefit of Linda Miles.
   c. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Robert Miles.
   d. Acceptance of Transfer Between State Retirement Systems of Jennie Randall.
   e. Acceptance of Transfer Between State Retirement Systems of Jeffrey Walther.
   f. Acceptance of Transfer Between State Retirement Systems of Jean Thews.
   g. Acceptance of Transfer Between State Retirement Systems of John Piccarreta.
   h. Acceptance of Transfer Between State Retirement Systems of Michael Hardt.
   i. Acceptance of Transfer Between State Retirement Systems of Matthew Bowers.
   j. Acceptance of Transfer Between State Retirement Systems of Jeffrey Green.
   k. Acceptance of Transfer Between State Retirement Systems of Thomas Tardy.
   l. Acceptance of Transfer Between State Retirement Systems of Bryan Larkin.
   m. Acceptance of Transfer Between State Retirement Systems of Jerry Brown.
   n. Acceptance of Transfer Between State Retirement Systems of Mark Tovar.
   o. Acceptance of Transfer Between State Retirement Systems of Michael Page.
   p. Acceptance of Transfer Between State Retirement Systems of Michael Reese.
   q. Acceptance of Transfer Between State Retirement Systems of Demetrius Lavant.
   r. Acceptance of Transfer Between State Retirement Systems of Tyler Parks.
   s. Acceptance of Transfer Between State Retirement Systems of Jerry Vance.
   t. Acceptance of Transfer Between State Retirement Systems of Paul Matson.
   u. Acceptance of Transfer Between State Retirement Systems of Carrie Amato.
   v. Acceptance of Transfer Between State Retirement Systems of Brian Moore.
   w. Acceptance of Transfer Between State Retirement Systems of Brian Devault.
   x. Acceptance of Transfer Between State Retirement Systems of David Dion.

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**MOTION:**

At 1:01 p.m.

Motion: Move we pass the Consent Agenda.

Moved by: Mr. Petrenka

Seconded by: Mr. Ferguson

Discussion: None

In Favor: Unanimous

Motion: Passes

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4. **Appropriate Action** regarding the Minutes of the April 22, 2015 Meeting of the PSPRS Board of Trustees.

   Mr. Brian P. Tobin
5. Discussion and appropriate **Action** with respect to the EORP disability application of Benjamin Vatz.

   *Mr. Brian P. Tobin*

Chairman Tobin stated that in the packet of information regarding Mr. Benjamin Vatz there are three independent medical examination reports.

<table>
<thead>
<tr>
<th>MOTION:2-5/27/15</th>
<th>At 1:01 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>To accept the Minutes of the April 22, 2015 Meeting of the PSPRS Board of Trustees as presented.</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>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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<table>
<thead>
<tr>
<th>MOTION:3-5/27/15</th>
<th>At 1:47 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>The three independent medical examination reports meet the criteria of disability. The disability application of Mr. Benjamin is approved.</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>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

6. Presentation, discussion and possible **Action** regarding PSPRS reform recommendations from the League of Cities and Towns Pension Task Force.

   *Scott McCarty*

   *Chair, Pension Task Force*

Mr. McCarty stated the Task Force has engaged many stakeholders regarding the release of the preliminary recommendations on reform. He presented the Yardstick regarding pension reform recommendations. The purpose of the Yardstick (which is not a proposal) is to identify goals, characteristics and elements of a viable and sustainable Public Safety Pension System in the State of Arizona to aid in public discussion which has been occurring since the release of the Yardstick on May 15, 2015. This is a tool with which to evaluate the current system or reform proposals that may come forward.

There are five components to the Yardstick.

1. Recommending the Defined Benefit Plan remains after having looked at the Defined Contribution model. It was decided the Defined Benefit Plan is more cost effective to deliver public safety pension benefits and it will be funded as in the current system.
2. Free from legal challenge since all current employees and retirees remain in the existing System.
3. For new statewide system for employees hired after July 1, 2016.
4. Elements of the new statewide system:
• Pooled assets and liabilities - shared risk across the broadest base, similar to ASRS. All 256 plan members come together.
• Fully funded under one system and strive for at least 100% funded.
• Equal cost sharing between employees and employers regarding contribution rates.
• Funding new benefits or benefit increases – funded as a System component and only if the System is determined to be fully funded before and after the change. Whatever the cost of the plan, it needs to be calculated into the contributions and both sides change equally.
• Pension increases – to maintain purchasing power, it is to be funded from the day the employee starts into the System and built into the cost and not a function of market performance.
• In-lieu of Social Security Program – mandatory participation in an employer matched Defined Contribution Plan for those members not in Social Security.

5. Governance structure (one set)
• System design to be a structure which encourages sustainable outcomes.
• Funding Policy – identifies financial objectives to ensure equity and sustainability.
• Investment Policy – identifies beliefs and objectives regarding asset allocation.
• Board of Trustees – independent and qualified experts with fiduciary responsibility of ensuring compliance with plan elements.
• Administration – consolidated into one independent disability committee of qualified experts. One new consolidated state retirement system.

The Yardstick was introduced on May 15, 2015, and the summer will be spent vetting and obtaining feedback. In August, the Executive Committee of the League of Cities and Towns will meet to make final recommendations keeping in mind the Yardstick is not a proposal, but a tool to use to evaluate proposals and for public discussion.

A question and answer period was held. Mr. McHenry inquired regarding medical disability retirements and the cost of reviewing them by one board for the entire system. Ms. Stein asked about unfunded liability and the response was it will be borne by the employees and employers 50/50 based on actuarial assumptions. Mr. Davis inquired about the comments that have been received by the task force. Mr. Ferguson stated that cost sharing which had been spoken about means cost shifting. The reply was that when a new system is created there is no unfunded liability so we do not see it as cost shifting. The unfunded liability of the old system is not being assumed. The unfunded liability of the new system will be one target to keep an eye on and there will be a better chance to manage away from that liability. Mr. Petrenka asked if there had been discussions with the task force regarding timing of benefit payments and benefit increases. The reply was there is not a proposal, but perhaps the current Tier 2 benefits. Regarding benefit increases, perhaps maintain CPI in the contribution rate and the amount to be calculated the date the employee starts work.

Mr. McCarty acknowledged there are transitional issues.
7. Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of March 31, 2015.

Ms. Bridget Feeley
Internal Audit and Compliance Officer

As of March 31, 2015 we are in compliance with the investment guidelines.

Report by Mr. Lauren Kingry, Chairman of the Investment Committee, regarding agenda items 8. through 15., which were discussed at the Investment Committee meeting held today, May 27, 2015, on or after 10:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

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

Ms. Bridget Feeley

There was nothing out of the ordinary included in the written report.


Mr. Mark Lundin
Deputy Chief Investment Officer - Risk

No serious discussion resulted from this report.

10. Presentation and discussion by Investment Department Staff and Consultants regarding the annual Overview and Strategic Plan for the GTAA portfolio.

Mr. Mark Lundin
Deputy Chief Investment Officer - Risk

NEPC, LLC
Albourne America LLC

The weight if this asset class in the portfolio is almost at the 10% target. Since inception in March 2010, PSPRS has relied on two consultants, Albourne America and NEPC and we have had continued satisfaction with the consultants said Mr. Lundin. The gross return has been 8.8% per annum which outperformed the Trust’s gross return of 8.4% per year.

GTAA is a top down investment strategy which attempts to exploit short term mispricing on a global set of securities. The goals are to exceed the benchmark, to diversify the Trust’s portfolio and to deliver returns uncorrelated to other asset classes using multi-asset strategies. From 2014’s report, GTAA has slipped in terms of absolute performance from where it was previously. This deterioration was not deemed excessive in view of the low volatility state of all publically traded markets during the same period. GTAA portfolio refinements of process and fit were reported. The portfolio contains the same number of investments as a year ago. Ending March 31, the 2015 return was +13.82% and for the Fiscal Year-to-Date the gross return was +9.22% which makes GTAA the top performing asset class in absolute terms.
Since inception, GTAA has outperformed the 7.85% global Trust assumed rate of return by 0.95% per year. Mr. Lincoln Smith of Albourne America stated the goal of this portfolio is to bring different types of return than from other asset classes in a different way by managers uncorrelated to other assets. A question and answer session was held following this presentation.

11. Report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of the March 31, 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 Operations Analyst

For the first calendar quarter of 2015, the Trust portfolio was up 2.76% with a net asset value of $8,295,500,000, an increase of $175 million more than at the end of calendar year 2014. All asset classes had positive performances on an absolute basis. The one, three, and five year trailing numbers indicate the portfolio is performing as designed.

12. Presentation and discussion by NEPC representative(s) on the Third Fiscal Quarter (First Calendar Quarter) investment performance for the PSPRS Trust.

Mr. Allan Martin, Partner
NEPC, LLC

The current economic market was described. The portfolio had positive results during a period of modest equity results, as it was constructed to perform. Over the last twelve months the Fund fell short of surpassing 7.85% assumed rate of return with a 6.6% return. At the end of the period the fund’s assets increased by $383 million net growth in assets from a year ago. For the past three years the Fund increased at 8.8% per annum; for the past five year period performance was 7.9%, ranking in the fourth quartile of the peer group universe. Regarding risk adjusted performance, PSPRS ranks in the top 6% for three years and the top 9% for the five year period. Over the last ten years volatility has been reduced and returns are better.

At the end of the quarter, investments are close to policy and are within Board ranges. For the one year ending 3/31/15 the Trust outperformed by 1.2% due to GTAA, Credit Opportunities, Absolute Return, Risk Parity and Fixed Ex Credit Ops. The Trust underperformed in Real Assets, Real Estate and International and U. S. Equities. A question and answer period was held.

13. Disclosure by Staff regarding Manager selection matters:

Mr. Ryan Parham
Assistant Administrator and CIO

a. Disclosure of an investment of up to $40,000,000 direct and up to $20,000,000 co-investments in the Cortec Fund VI, subject to final Staff and legal due diligence;

b. Disclosure of an investment of up to $60,000,000 direct in the GSA Trend Risk Premia Fund Limited, subject to final Staff and legal due diligence.
Nothing of note was discussed during the Investment Committee meeting.

14. Disclosure by Staff and possible discussion with the members of the Committee regarding the full redemption of BlackRock Global Ascent Fund, under the Hedge Fund Redemption Policy.

   
   
   Mr. Ryan Parham

   
   
   During the Investment Committee meeting Mr. Anderson commented that the redemption is due to flat performance and the money will be repositioned.


   
   
   Ms. Jennifer Eichholz, Esq.
   In-House Investment Counsel

   
   
   a. Cortec Group Fund VI, LP; Date Closed: May 13, 2015.

   One more transaction closed this month which will be reported during the next meeting.


   
   
   Mr. Jim Keeler
   Program Director
   Nationwide Retirement Solutions

   
   
   As of the first quarter of 2015 assets in the PSPRS Supplemental Plan are over $12 million and the vesting period is five years. There are 54 participants in the EODCRS 401(a) Plan.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 17. through 26., which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, May 27, 2015, on or after 11:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

17. Presentation of the Month-to-Date Budget Report for FY 2015 and possible Action on same.

   
   
   Mr. John Hendricks
   Manager of Finance and Accounting

   
   
   We are over budget by 0.03% if you remove the investment due diligence and litigation amounts. Add those back in then we are over 8.39%. The actuarial audit was budgeted at $180,000, but in consultation with the actuaries it was decided that more dust needs to settle with the new GASB pronouncements and the Hall case before we perform the next one. This audit was budgeted at $180,000, and it was requested by staff to transfer $129,000 of that amount to increase the budgeted amounts due to additional costs for the financial audit, public relations work, and website redesign. It was recommended that the budget be amended by a reduction of the difference of $51,000.
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 lot of time was spent with a fire district regarding a joinder agreement.

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

Mr. Jared A. Smout  
Deputy Administrator

There are three requests for rehearing.

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

Mr. Jared A. Smout

The Operations, Governance Policy and Audit Committee approved payment of the law firms' billings for legal services performed in April, 2015 in the amount of $108,698.13.


Ms. Bridget Feeley

A report was given regarding the completion date and/or the estimated completion time of projects listed on the Compliance and Internal Audit Plan. The tasks mentioned were building security, manager fees, risk assessment, and work on automated ACL. Also reported upon was Compliance and Internal Audit staff training and development.

22. Written update on external communications efforts.  

Mr. Christian Palmer  
Avant Strategies

The report was in the information for the Board of Trustees.

23. Presentation, discussion and possible Action regarding the renewal of fiscal 2015-16 contracts for various services.  

Mr. Jared A. Smout
This will be completed next month.

24. Consideration of, and possible Action on, the FY 2016 PSPRS Administrative Budget.

   Mr. Jared A. Smout

   The proposed FY 2016 PSPRS Administrative Budget is an increase of 1.8% over the 2015 FY budget. Some $230,000 includes an increase in bank fees and revaluations over which we have no control. Two new interns’ salaries, an investment analysis position and another accounting position are being included in the proposed budget.

25. Discussion and possible Action to approve, disapprove or modify the Assumed Earnings Rate for the fiscal year beginning July 1, 2015.

   Mr. Jared A. Smout

   Representatives from Gabriel, Roeder, Smith & Company, Mr. Mark Buis and Mr. Jim Anderson attended telephonically. Mr. Smout stated this is the annual process to set the interest rate for DROP accounts for Tier I effective July 1, 2015. It is also the discount rate that will be used in the annual valuations. The actuaries have been recommending taking the rate to 7.5% from 7.85% for the past few years and that is still their current recommendation. Mr. Smout conveyed a request by the Chairman of the League's Pension Task Force that this item not be decided on at this meeting, but instead suggested conducting an open work session with the public and employers to be part of the decision process.

   GRS stated they had sent a memo to the members of the board with background and analysis information of the issue and the process that PSPRS has gone through over the last three years.

   Ms. Stein inquired whether it is a recommendation to go to 7.5% on return on investment or return to the Trust fund itself. The response was it is the total return of the Fund. Why are you recommending 7.5% when the long term projection from the investment consultant is slightly over 8%? The answer was GRS staff is not investment consultants, but we look at the average of many consultants; not just one and 7.85% is at the upper end of the range. We want to be more conservative. If we had an investment strategy of long term bonds of 8%, this would be predictable with no volatility for the portfolio inquired Ms. Stein. The more volatile the portfolio, the less we can rely on the planned earnings average occurring. Considering the part that goes into the COLA reserve, it is harder to achieve higher rates of return.

   There was a question about the time horizon of the forecast and why it is not the same period as the liability. There was another question regarding changing the smoothing rate, the value of going below the 7.5%?
26. Update and discussion on service purchase agreements on an installment basis.

   Mr. Jared A. Smout

   This is currently being worked on and will be reported at a later date.

27. Discussion and possible Action regarding the use of legal counsel and their scope of work.

   Mr. Jared A. Smout
   Ivy N. Voss, Esq.
   Assistant Attorney General
   Jennifer Eichholz, Esq.

   Tabled.

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

   Mr. Jared A. Smout

   Tabled.

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

   Mr. Brian P. Tobin

   The visa process was not successful and as per the agreement with the candidate, the offer will be withdrawn on either June 14 or 15, 2015. The Administrator Selection Committee will reestablish itself to move forward.
30. Discussion and appropriate **Action** regarding Board of Trustee member requests to participate in training, educational and due diligence opportunities.

*Mr. Brian P. Tobin*

No requests were made.

31. 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, Cross, 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 32.

32. **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. Status report 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 and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans or Trust not otherwise referenced above, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

   c. 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, 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).
d. 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, 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).

e. Discussion and consultation with legal counsel for the purpose of receiving legal advice regarding the use of legal counsel, as authorized by A.R.S. § 38-431.03(A)(3).

f. Discussion with legal counsel regarding the interpretation of total return as used in ARS § 38-856, as authorized by A.R.S. § 38-431.03(A)(3).

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

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<th>MOTION:5-5/27/15</th>
<th>At 2:57 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To recess Open Session and enter Executive Session.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. McHenry</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Davis</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

Open Session resumed at 3:59 p.m.

33. Set the next meeting date. *(Currently scheduled for Wednesday, June 24, 2015.)*

Discussion was held regarding dates for the June, July, August and September meetings. Each member of the board will be contacted individually regarding establishment of new meeting dates.

34. Adjournment.

The meeting was adjourned at 4:45 p.m.
<table>
<thead>
<tr>
<th>Trustee Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brian P. Tobin</td>
<td>Chairman</td>
</tr>
<tr>
<td>Gregory Ferguson</td>
<td>Trustee, Vice Chairman</td>
</tr>
<tr>
<td>Randie A. Stein</td>
<td>Trustee</td>
</tr>
<tr>
<td>Jeff Allen McHenry</td>
<td>Trustee</td>
</tr>
<tr>
<td>Richard J. Petrenka</td>
<td>Trustee</td>
</tr>
<tr>
<td>Lauren Kingry</td>
<td>Excused</td>
</tr>
<tr>
<td>William C. Davis</td>
<td>Trustee</td>
</tr>
</tbody>
</table>

PSPRS Board of Trustee Meeting Minutes
May 27, 2015

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