MINUTES

Mr. Richard J. Petrenka, Chair, Trustee
Mr. Lauren Kingry, Trustee
Mr. Brian Tobin, Trustee
Mr. Jim Hacking, Administrator
Mr. Ryan Parham, Assistant Administrator / Chief Investment Officer
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Pascal Stalder, Deputy Chief Investment Officer – Risk
Mr. Paul Corens, Senior Investment Analyst
Mr. Shan Chen, Senior Investment Analyst
Mr. Mark Steed, Lead Investment Analyst
Mr. Mark Selfridge, Senior Investment Analyst
Mr. Anton Orlich, Lead Investment Analyst
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Ms. Michele Weigand, Senior Contracts Specialist
Mr. Don Stracke, Senior Consultant, NEPC, LLC
Mr. Jay Rose, Partner, StepStone Group
Mr. Ed Schwartz, Partner, ORG Portfolio Management
Mr. Stu Porter, CEO / CIO and Mr. Tim Smith, Investor Relations, Denham Capital Management L.P.
Mr. Bao Troung, Managing Director and Mr. Keith Merrill, Senior Associate, Centerbridge Partner, L.P.

1. Call to Order, Roll Call, Opening remarks……………………………..Mr. Richard J. Petrenka ……………………..…………………Committee Chairman

The meeting was called to order by Chairman Petrenka at 10:08 a.m.

2. Review, discussion and possible approval of Investment Committee Minutes from January 25, 2012……………………………..Mr. Richard J. Petrenka

MOTION: 2-34-12 At 10:09 a.m.

Motion: To approve the Investment Committee Minutes from January 25, 2012 as presented.

Moved by: Mr. Tobin
Seconded by: Mr. Kingry

Discussion: None

In Favor: Unanimous

Motion: Passes

3. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio………………………..Mr. Ryan Parham …………………………………………………………………………..Chief Investment Officer
Mr. Parham informed the members of the Board the quarterly performance review that was to have been presented by NEPC this month will be given during the April 2012 meeting.

For the month ended January 31, 2012, Mr. Parham summarized the total portfolio performance was up 2%. For the fiscal year-to-date, the benchmark rose 83 basis points and for the fiscal year-to-date the total fund was down 1.41% for a difference of 220 basis points. That under performance, for the most part, is due to the portfolio’s underweight in U.S. and International equities (this is confirmed by NEPC, LLC) which occurred with the transition from Mellon Beta Management to State Street during a time of tremendous volatility and risk. PSPRS has a low amount of risk in the conservative portfolio.

The real estate portfolio, with extremely illiquid assets (made up of about 50% Arizona assets and 50% national and international assets) is on the average 5-6% overweight. Payments for pension payroll must come from liquid assets. The actuaries from Gabriel Roeder Smith & Company (GRS) have determined we will be $50 million cash flow negative and it is best to sell some of the more liquid portions of the portfolio in order to cover the cash needs. This need for cash is due to the fact the newest beneficiaries saw the benefit of retiring under the old provisions of the statutes rather than waiting to retire under the new legislation of 2011 resulting from SB 1609. It is this behavior that will take the System to an average negative cash flow of $120 million. Mr. Hacking added that employers are not replacing retirees with new hires, so the contribution rate is lower, along with this, there has been no significant growth in payroll.

Staff and Mr. Parham are suggesting leaving a liquidity buffer with readily available cash since capital calls are a bit lumpy and we must rely on the liquid portions of the portfolio. PSPRS could not have anticipated the significant change in behavior of the retirees as a result of the 2011 legislation.

Discussion regarding prudently adjusting our asset allocation, ranges and benchmarks will be given over the next few months following completion of an experience study by GRS. Following this, plans for implementation will be discussed and the Investment Policy will be updated so that changes are ready by July 1, 2012. It is best to have long term asset allocation targets due to risk of disconnects.

Staff and Board members were invited to meet with Desert Troon to visit local real estate properties. Discussion was held regarding details of the switch from Mellon beta replication to State Street.

4. Presentation by Investment Department Staff, StepStone Group and Denham Capital Management L.P. representatives and discussion and possible Recommendation regarding an investment of up to $50 million in Denham Commodity Partners Fund VI, L.P. or appropriate feeders, blockers, or associated or parallel funds of same
During the presentation Mr. Corens stated Denham Commodity Partners invests in oil and gas extraction, oil field services and equipment, metals and mining, and conventional and renewable power generation. Denham Commodity Partners gives exposure to the global energy sector where they are able to identify and develop profitable investments and focus on preserving capital while maintaining downside protection.

Mr. Rose added due to worldwide growth and development of economies the forecast is for continued demand for power. This company is among the top quartile of their industry with an IRR of 19.4%.

Mr. Porter and Mr. Smith spoke with the Board of Trustees to inform them of their operational expertise, global execution of transactions, integrated platform where weekly meetings are held, and their culture of focusing on responsibilities to the company and colleagues. Their internal rate of return is achieved through investments in oil and gas in North America and Latin America; metals and mining through investments in Latin America, Africa, and Australia; and through investments in power and renewable energy in the United States, Europe and the rest of the world. Their staff and consultants have life long careers in these areas and focus on opportunities to acquire new assets.

**MOTION: 2-35-12** At 11:55 a.m.

Motion: To **Recommend** the Board of Trustees invest up to $50 million in Denham Commodity Partners Fund VI, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Moved by: Mr. Tobin  
Seconded by: Mr. Kingry  
Discussion: None  
In Favor: Unanimous  
Motion: Passes

5. Presentation by Investment Department Staff, NEPC, LLC and Centerbridge Partners, L.P. representatives and discussion and possible **Recommendation** regarding an investment of up to $40 million in Centerbridge Special Credit II. L.P., or appropriate feeders, blockers, or associated or parallel funds of same…………………………….Mr. Mark Steed  
…………………………………………………………………………………………………………………………….Mr. Don Stracke  
…………………………………………………………………………………………………………………………….Mr. Bao Troung, Managing Director  
…………………………………………………………………………………………………………………………………..Mr. Keith Merrill, Senior Associate  
…………………………………………………………………………………………………………………………….Centerbridge Partners, L.P.

This agenda item was introduced by Mr. Steed who said the Trust invested in Centerbridge Special Credit Partners I in 2009. Currently, we are looking at Centerbridge Special Credit II. L.P due to global deleveraging and the above expected performance of our 2009 investment. This fund will invest in stressed and distressed credits where companies are restructured to realize maximum future value. Staff, NEPC, Albourne and StepStone recommend this investment.
Messrs. Troung and Merrill presented the history of the company, the background of its partners, and their strategy for control. Centerbridge Special Credit II has two strategies; those where they take ownership of a company and that of the non-control strategy where there is a restructuring without ownership of a company. Centerbridge Special Credit II can capitalize on a robust pipeline, their understanding of market timing, and the current global deleveraging.

<table>
<thead>
<tr>
<th>MOTION: 2-36-12</th>
<th>At 12:20 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>To <strong>Recommend</strong> to the Board of Trustees an investment of up to $40 million in Centerbridge Special Credit II, L.P., or appropriate feeders, blockers, or associated or parallel funds of same.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Kingry</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Tobin</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. Investment Update Report by Desert Troon Companies and Investment Department Staff representatives and discussion regarding the assets of the Trust which are being managed by Desert Troon Companies. Daniel S. Smith, President. Daniel R. Hammons, V.P. / Chief Financial Officer. Desert Troon Companies.

This item was tabled to the Board of Trustees meeting at 1:00 p.m.

7. Presentation by Investment Department Staff and NEPC, LLC representatives and discussion and possible **Recommendation** regarding the approval of certain proposed revisions to the Asset Allocation targets which are stated in Appendix I Asset Allocation Policy; replacing and superseding those targets. Mr. Ryan Parham, Partner, NEPC, LLC.

Tabled until the April 4, 2012.

8. Report by Investment Department Staff and/or legal counsel, and discussion by them with the Committee (and possible recommendation by the Committee to the Board of Trustees) about recent legal developments and issues (including settlement discussions) involving the investments of the Arizona PSPRS Trust, the System or the System’s sister plans (EORP or CORP) (collectively, the “Plans”). Such discussion (and recommendations) may include legal issues (and disputes involving) the Plans’ custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venture partners (as well as any investments managed by the Plans’ investment managers or joint venture partners). The Committee may vote to discuss these matters, including public record requests, in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(2),(3), (4), and (7) as set forth in item 9. Matters discussed may include claims or potential claims by or against or issues concerning Bank of America, BNY Mellon, Stroh Ranch Development, The Pivotal Group, APEX Capital, U.S. Bank and/or Millard and Scott Seldin.

Tabled until the April 4, 2012 meeting.

**MOTION:** 2-36-12

**Motion:** To **Recommend** to the Board of Trustees an investment of up to $40 million in Centerbridge Special Credit II, L.P., or appropriate feeders, blockers, or associated or parallel funds of same.

**Moved by:** Mr. Kingry

**Seconded by:** Mr. Tobin

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes
9. **Executive Session for Legal Matters.** Discussion with legal counsel (and possible recommendation to the Board of Trustees) about legal developments and issues (including settlement discussions) involving public record requests and the Plans’ investments, including legal matters concerning the Plans’ custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venture partners (as well as any investments managed by the Plans’ investment managers or joint venture partners). The Investment Committee may vote to discuss these matters, wholly or in part, in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(2),(3),(4), and (7). Matters discussed may include claims or potential claims by or against or issues concerning Bank of America, BNY Mellon, Stroh Ranch Development, The Pivotal Group, APEX Capital, U.S. Bank and/or Millard and Scott Seldin.

Tabled until the April 4, 2012 meeting.

10. Schedule next meeting. *(Calendared for April 4, 2012)*

11. Call to the Public:

This is the time for the public to comment. Members of the Committee may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01(H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.

The call to the public was not answered.

12. Adjournment

The meeting was adjourned at 12:24 p.m.

________________________________                  ______________________
Mr. Richard J. Petrenka, Chair, Trustee    Mr. Lauren Kingry, Trustee

_____________________________
Mr. Brian Tobin, Trustee