PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES INVESTMENT COMMITTEE MEETING

July 27, 2011

MINUTES

Members Present:
Mr. Alan Maguire, Chair
Mr. Richard Petrenka, Trustee
Mr. Lauren Kingry, Trustee

Others Present:
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. Anton Orlich, Senior Analyst
Mr. Paul Corens, Senior Analyst
Mr. Mark Steed, Senior Analyst
Mr. Shan Chen, Senior Analyst
Mr. Mark Selfridge, Senior Investment Analyst
Ms. Michele Weigand, Senior Contracts Specialist
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Mr. Allan Martin, Partner, NEPC, Inc.
Mr. Dan Stracke, Senior Consultant, NEPC, Inc.
Mr. Ed Schwartz, Partner, ORG Portfolio Management
Mr. Lincoln Smith, Senior Portfolio Analyst, Albourne America, LLC
Mr. Jay Rose, Partner, StepStone Group
Mr. Marc Lieberman, Partner, Kutak Rock

1. Call to Order, Roll Call, Opening remarks…………………………..………Mr. Alan Maguire
The meeting was called to order by Chairman Alan Maguire at 9:01 a.m.

2. Review, discussion and possible approval of Investment Committee Minutes from June 22, 2011…………………………………………………………………..Mr. Alan Maguire

MOTION: 7-1-11
At 9:02 a.m.
Motion: To approve the Minutes from the June 22, 2011 meeting as distributed.
Moved by: Mr. Petrenka
Seconded by: Mr. Kingry
Discussion: None
In Favor: Unanimous
Motion: Passes

3. Introduction of Senior Analyst, Anton Orlich………………………..Mr. Ryan Parham

Investment Committee Minutes
July 27, 2011
Mr. Orlich was welcomed by Chief Investment Officer Mr. Ryan Parham to the PSRPS Investment Staff and he will be working in the public equities area and assisting with risk analysis. Mr. Orlich summarized his background by saying that he was born and raised in Arizona, has a Bachelor’s Degree in economics from Columbia University, a PhD in political science from Yale University, and has worked at McKinsey and Neuberger Berman.

4. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio update with an overview of the Private Equity asset class

The portfolio performance was summarized by Mr. Shan Chen. He reported that the month end return was -1.08% as compared with the benchmark return of -.072%. Fiscal year-to-date, the return was 17.77% before fees as compared to the benchmark of 17.36%. After fees, the return was 17.37%, just above the benchmark.

Mr. Chen described the Private Equity asset class which comprises 8% of the total portfolio. This asset class is illiquid with each of the investments in it being held from 3 to 8 years. In the private equity arena, the general partner has significant influence over the portfolio companies and therefore this ownership is not passive. There is also a liquidity and control premium associated with this type of investment. Thus, due to the fact that public equities are subject to global risk, investing in private equities should be compensated equally to public equities with a liquidity and control premium leading to outperformance relative to publicly traded equities. Since the return from private equity does not correlate to publically traded equities, this lowers the volatility in the portfolio.

The discussion regarding the process of building a private equity portfolio included a focus on diversification over different vintage years and growth stages (start-up companies to mature), diversification over size, region, country and cost; and diversification in structure. Structure could be in a direct investment, a fund-of-funds structure, secondary investments, or co-investments.

Mr. Petrenka inquired as to the decision processes in order to determine which manager to hire and when to exit an investment. Mr. Parham stated we do our own due diligence and Albourne and StepStone conduct their own reviews and then the due diligence results are cross referenced. This process will be discussed in an upcoming meeting. A discussion was then held regarding which investments are better and Mr. Parham responded that, in private equity, past performance is indicative of future performance. Mr. Maguire wishes to discuss benchmarks and to take existing private equity managers and drop them into four categories consisting of direct investments, fund-of-funds structure, secondary investments, or co-investments and then tie this back to the total portfolio.

5. Presentation by Investment Department Staff, StepStone Group, and DAG Ventures representatives and discussion and possible Recommendation regarding a possible investment of up to $40 million divided between (i) a direct investment of $10 million and (ii) co-investments of up to $30 million (with a cap of $4 million per co-investment) in DAG V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

Presentation by Investment Department Staff, StepStone Group, and DAG Ventures representatives and discussion and possible Recommendation regarding a possible investment of up to $40 million divided between (i) a direct investment of $10 million and (ii) co-investments of up to $30 million (with a cap of $4 million per co-investment) in DAG V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same...
Mr. Chen said DAG V, L.P. is a mid-stage, top tier venture capital firm and PSPRS has been investing with DAG Ventures since 2006. DAG is in the top quartile of venture capital firms and in DAG V, we have discretion over each investment. DAG is a co-investor with four elite firms, Kleiner Perkins, Sequoia, Benchmark, and Excel. DAG avoids seed capital and A rounds and moves quickly for B and C stages.

Questions followed including Mr. Petrenka’s inquiry regarding diversification. Mr. Rose responded that DAG invests Fund assets in mid-stage companies in the areas of information technology, life sciences and game changing areas. Mr. Kingry asked if we realize the desired returns due to the amount of monitoring needed for this asset class. Mr. Parham responded that the monitoring is done by the PSPRS staff in conjunction with the consultants. He added that there are no fees and no carrying charges which reduces our costs and our exposure.

An introduction to Timbervest Crossover III,  L.P. was given by Mr. Schwartz who stated that we have been able to acquire several secondary investments in the crossover space with a projected IRR since 3/31/11 of 13.9%. Timbervest has been in business since 1985 as a timber and natural resources private equity manager with $1.8 billion under management, of which $270 million is in 80 crossover assets.

Mr. Corens described crossover assets as environmental credits-trading markets created by law. A private and public developer cannot obtain their permits to build until they have environment mitigation approvals for their mitigation permits. Developers must show no net environmental loss for their project and they do that by buying credits.

**Recommendation**

7-2-11

**Motion:**

To recommend to the Board of Trustees a possible investment of up to $40 million divided between (i) a direct investment of $10 million in and (ii) co-investments of up to $30 million (with a cap of $4 million per co-investment) in DAG V, L.P. or appropriate feeders, blockers, or associated or parallel funds of same.

**Moved by:**
Mr. Kingry

**Seconded by:**
Mr. Petrenka

**Discussion:**

In Favor: Unanimous

Motion Passes: Passes
in a property that will be improved. Since the 2008 law, the preferred method for mitigation banking is third party non-contiguous, non-related property banking. Timbervest constructs these mitigation banks and sells the credits to developers based on market supply and demand. They identify regional demand within these mini-markets, identify potential property where they can construct the mitigation property within, as, for example, a watershed. Then they purchase the property, plan, and go through the entitlement process with the regulators and in that process they trade their development plan which will be monitored, get their own permit and finally the regulator determines the number of credits that can be sold based on this property. This is where the investment value is to be found.

Mr. Schwartz remarked that demand is largely in the area of infrastructure which is diversified by geography, mitigation type and concentrated in areas of growth and development. This is a ten year fund and includes a seat on their advisory board.

Mr. Petrenka asked what in the underlying laws has caused this type of investment to develop. Mr. Corens responded that for the last 40 years the environmental laws have become more restrictive. Mr. Schwartz added that government development and energy are currently the big drivers in this area.

<table>
<thead>
<tr>
<th>Recommendation:</th>
<th>At 10:10 a.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-3-11 Motion:</td>
<td>To recommend to the Board of Trustees a possible investment of up to $50 million in Timbervest Crossover III, L.P. or appropriate feeders, blockers or associated or parallel fund of same.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Petrenka</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Kingry</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>

7. Presentation by Investment Department Staff and StepStone Group representatives and discussion and possible Recommendation regarding a possible investment of up to $30 million in co-investments (with a cap of $6 million per co-investment) with Trident V, L.P. managed by Stone Point Capital, LLC ………………………………………Mr. Marty Anderson …………………………………………………………………….Deputy Chief Investment Officer …………………………………………………………………….Mr. Jay Rose

Mr. Anderson stated that PSPRS has had a relationship with Stone Point Capital since 2009. Stone Point focuses on private equity buyouts and investments in the financial services industry. They have a diversified set of investments focused on risk controlled opportunity oriented cash flow. Each individual investment is capped at $6 million and cannot be exceeded without Board of Trustee approval.

Mr. Maguire suggested recategorizing private equity investments by what they invest in rather than how the money is invested.
8. Presentation by Investment Department Staff and Albourne America representatives and discussion and possible Recommendation regarding a possible investment of up to $40 million in the Pacific Alliance Asia Opportunity Fund, L.P. or appropriate feeders, blockers, or associated or parallel funds of same managed by Pacific Alliance Group or its affiliates.................................................................Mr. Marty Anderson
..................................................................................................................Mr. Lincoln Smith, Senior Portfolio Analyst
..................................................................................................................Albourne America

Mr. Anderson reminded the committee members that last month the Board of Trustees had approved an investment in the Pacific Alliance Special Situations Fund which invests across Asian illiquid opportunities. Pacific Alliance Asian Opportunity Fund invests in more liquid opportunities using the same team and organization but just different liquidity opportunities. Mr. Smith of Albourne America said this is an event driven multi-strategy fund within Asia and this fund has had this type of strategy since 2002. Loan origination is the key attribute and they source deals themselves with the local knowledge they have acquired over the years. Their structure is based upon loan origination with repossession ability. They own the collateral of the company and the company has the option to repurchase the collateral. Pacific Alliance is over collateralized by three times. Part of this fund is comprised of the more liquid portion of the Special Opportunities Fund which was reviewed last month which is partially in public market arbitrage and partially in closed-end arbitrage and block trades.

Mr. Petrenka inquired about the amount of real estate investments and Mr. Smith replied that, as with all investments, the risk committee looks at the risk exposure.
9. Report by Investment Department Staff representatives and discussion and Recommendation regarding the redemption of assets (or possible cancellation of such) from the Pine River Fixed Income Fund (formerly known as the Nisswa Fixed Income Fund). Mr. Marty Anderson

Mr. Anderson summarized that our investment is in a fixed income fund specializing in credit opportunities in mortgage and mortgage derivatives. We have received notice that they are asking to change some of the terms of the fund and tighten the liquidity provisions. They have been fairly successful in the past, but looking forward, we must consider whether or not to approve these planned changes. A redemption notice has been sent by Pine River Fixed Income fund and because of the deadline for a response, Staff has sent in the redemption notice. Staff recommended proceeding with the redemption notice but of course we can rescind it if so directed by the Board. Mr. Smith of Albourne added that, due to the change in terms, market losses have increased even though Pine River has grown the assets. Mr. Parham said that, in consultation with legal counsel, our policies are silent as to whether or not Staff had the authority to issue this redemption notice and it is on the agenda to make certain we have not exceeded our authority. At the very least, the Board should ratify the action taken by the staff. We seek to clarify the authority that the staff has to to move intra-month when issues like this arise. Mr. Lieberman stated that we had a drop dead date of July 25, 2011 but the redemption can be cancelled.

Recommendation: At 10:40 a.m.
7-6-11
Motion: To ratify the redemption of assets.
Moved by: Mr. Petrenka
Seconded by: Mr. Kingry
Discussion: None
In Favor: Unanimous
Motion: Passes

10. Report by Investment Department Staff representatives and discussion regarding the liquidation of assets from the FrontPoint Offshore Multi-Strategy Fund Series A, L.P. Mr. Marty Anderson

Mr. Anderson said FrontPoint is in the process of liquidation as a result of one of their managers, in a long-short fund focusing on health care, allegedly received information regarding one of their underlying portfolio companies that a drug was not going to be approved. They then liquidated their position and potentially saved $30 million in losses. When this came to light, fund investors began to redeem their investments which caused the fund’s strategy to become unworkable. Consequently, FrontPoint decided to liquidate the fund and return the assets to the investors. 81% of our investment has been returned and in the fall, all but $2 million of the remainder of the capital will be returned.

Mr. Smith of Albourne added that when redemptions begin, it eats into the business model. The good news is that they were dealing with very liquid markets. Mr. Parham stated this speaks to having the prudent ability to move quickly intra-month.
11. Presentation by Investment Department Staff and/or legal counsel and discussion and possible Recommendation regarding the adoption of the proposed Redemption Policy.

Mr. Parham said that a Redemption Policy needs to be added to the investment policies as Appendix XII. This is not an effort to usurp the authority of the Board of Trustees. Mr. Martin of NEPC stated that events may cause rapid changes to the ability of a fund to continue which is an industry issue. We need guidance to differentiate between the termination of a manager versus defunding of a manager. We are asking for the ability to prudently act with a justified situation using all resources and information to make this decision. During the meeting following such a decision, we will present reasons for the actions subject to Board review. Staff is looking for a policy to redeem in a timely manner without having to go to the Investment Committee for approval in advance. In many cases these redemption notices can be withdrawn.

Mr. Lieberman added that we need this since our current policy does not address this situation. He stated that the policy will give us the ability to move prudently. The final paragraph on the last page indicates that, even if a redemption request has been made, the Board has absolute authority to call it back. However, in some instances, that may not be possible. What he stated he would like to do in the last paragraph, assuming the rest of the policy is fine with the Board, is to have it provide that the Board can direct that the redemption request be reversed so long as that request is capable of being reversed.

Mr. Petrenka stated he does not see any downside to this change to the policies, except that it places added responsibility on the Investment Staff. He asked about the number of instances where redemptions have been reversed in the past. Mr. Smith responded that it is rare, but you do not want to be the last party in the redemption line. It is always best to be ahead of other investors in a redemption situation.

A discussion between the Committee, Staff, and legal counsel was held regarding the details of the policy and the language therein. Mr. Maguire requested holding this decision over for another month in order to allow time to refine a couple of points; he indicated a desire to work with legal counsel and return with another draft of this policy to the Board in August.

12. Presentation by NEPC, LLC representatives regarding Portable Alpha generally with a status report from Investment Department Staff on the Portable Alpha portfolio of the System’s Trust.

<table>
<thead>
<tr>
<th>Recommendation:</th>
<th>At 10:50 a.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-7-11 Motion:</td>
<td>To approve the ratification of the liquidation of this fund.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Petrenka</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Kingry</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>

Mr. Allan Martin
Mr. Don Stracke of NEPC presented the concepts of Portable Alpha which included the definition, why PSPRS is using it, the structure, and method. Alpha is the performance in excess of a benchmark as opposed to beta which is the index return. Alpha is uncorrelated to beta. NEPC’s five to seven year forecast for equities is below the PSPRS actuarial assumed rate of return and there is a need to generate returns above the index as much as possible. To implement portable alpha, pick your destination beta asset class, find outperforming sources of value-added alpha and then implement the strategy. Then after demonstrating consistent performance, with little or no beta, diversify your alpha sources. The performance should be evaluated over a full market cycle.

13. Discussion of the process of currency exchange from U.S. Dollars to non U.S. denominated currency………………………………… …………………….Mr. Ryan Parham

Mr. Selfridge described how, if PSPRS commits to funding an investment priced in Euros, we transition the dollar commitment into the Euro exposure. He stated at the final stages of the close of the transaction, attorneys request the commitment in local currency terms. Staff members check the spot price on Bloomberg at that time to determine the exchange rate so as not to exceed the approved dollar amount on the date of the execution of the documents rounding to the nearest thousand. Mr. Maguire questioned how to look at the rate of return. Ms. Feeley had concerns regarding binding ourselves to the currency at the time and that conversion rates could lead to being over or under the approved investment amount. Mr. Parham responded that the solution is to report to the Board and the Compliance Officer the foreign currency conversion on the date of closing. Thus testing of compliance against foreign currency could be conducted as to the commitment documents and incorporate into the documents the currency translation.

Mr. Maguire requested a future discussion of foreign currency exposure and the processes we want to establish to handle this detail. Mr. Parham stated that we will incorporate a monthly report regarding the investment amounts of Yen and Euros.

14. Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of June 30, 2011………………………………….Ms. Bridget Feeley

It was reported by Ms. Feeley that as of June 30, 2011, the review of the portfolio found no compliance issues.

Mr. Parham commented to the Board that, if the debt ceiling debate and negotiations resulted in a down grading of the credit rating(s), there will be a problem in our fixed income portfolio. He then suggested consideration of a policy revision as to what the total average credit rating of internally managed fixed income portfolio should be as opposed to our having to immediately undertake a rebalancing of the portfolio.
Investment Committee Minutes
July 27, 2011

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 venturers (as well as any investments managed by the Plans’ investment managers or joint venturers). The Committee may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(2),(3),(4) and (7), as set forth in item 16. Matters discussed may include claims by Bank of America, Stroh Ranch Development, The Pivotal Group and/or Millard and Scott Seldin.

16. **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 the Plans’ investments, including legal matters concerning the Plans’ custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Plans’ investment managers or joint venturers). 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 by Bank of America, Stroh Ranch Development, The Pivotal Group, and/or Millard and Scott Seldin.

There was no motion for an Executive Session.

17. **Schedule next meeting.** *(Calendared for August 31st)*

The next meeting is scheduled for August 31, 2011.

Regarding the future meeting agendas, Mr. Maguire requested an agenda item that encompasses a report and/or comment by the Chief Investment Officer or Investment Staff.

18. **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.

There were no requests from the members of the public to speak.
19. Adjournment

<table>
<thead>
<tr>
<th>Motion: 7-8-11</th>
<th>At 11:54 a.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>To adjourn the meeting.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Petrenka</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Kingry</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>

---

Mr. Alan Maguire, Chair, Trustee

Mr. Richard Petrenka, Trustee

Mr. Lauren Kingry, Trustee