PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES INVESTMENT COMMITTEE MEETING

October 22, 2014

MINUTES

Present: Mr. Lauren Kingry, Chairman, Trustee - Chairman
Mr. Richard Petrenka, Vice Chairman, Trustee
Mr. William Davis, Trustee - Excused

Others Present: Mr. Ryan Parham, Chief Investment Officer
Mr. Marty Anderson, Deputy Investment Officer - Excused
Mr. Mark Steed, Lead Portfolio Manager and Chief of Staff
Mr. Shan Chen, Lead Portfolio Manager
Mr. Mark Lundin, Deputy Chief Investment Officer – Risk
Mr. Chris Hill, NEPC, LLC
Mr. Anthony Ferrara, NEPC, LLC
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock
Ms. Jennifer Eichholz, In-House Counsel, PSPRS

1. Call to Order, Roll Call, Opening remarks.

Chairman Kingry called the meeting to order at 10:21 a.m.

2. Review, discussion and possible Action to approve Investment Committee Minutes from September 24-25, 2014.

An Investment Committee meeting was not held on September 24-25, 2014. The August and the October minutes will be presented to the committee for possible action in November.

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

As of August 31, 2014 the PSPRS Trust was up 1.73% as compared with the benchmark which was up 1.55%. For the Fiscal Year-to-Date the Trust was up 1.05% as compared to the benchmark which was up .87%. The performance for the Firefighters and Peace Officers Cancer Insurance Program increased by 2.00 % versus the benchmark which increased by 1.41%. Most of the asset classes outperformed their benchmarks but equities underperformed the benchmark by about 6 basis points. Private Equity portfolio is up 1.13% based on the 6/30/14 valuation. We are in the process of liquidating two positions that went public which are FireEye and Alibaba. Mr. Kingry inquired about the amount of gross income in 2009, 10, and 11 and the
percentage PSPRS had contributed to the Troon investment. Mr. Parham stated that information is considered confidential by Troon and this information will be presented either in writing or in Executive Session to the board as soon as Mr. Anderson returns.

Mr. Lieberman said that currently a lot of inquiries have been made regarding our real estate assets. Many of the issues will be moot very soon. There is a good possibility that a significant amount of our real estate assets will be sold within a short period. This is best discussed in Executive Session and once Mr. Anderson is back. This is a highly sought after portfolio which has been written down and the losses have already been booked. Questions will be discussed in Executive Session at the next meeting.

Mr. Mark Lundin  
Deputy Chief Investment Officer – Risk

This report included information regarding investment and sub-portfolio risk, updated volatility and value at risk forecasts, risk contributions by asset class, risk factor analysis and results of stress testing while furnishing our interpretation of results in order to provide perspective. Since our last meeting micro developments have been observed which have affected the PSPRS Trust portfolio. The major stock indices have dipped into correction territory, corporate yield spreads have increased, government bond yields are surprisingly low pending possible rise in interest rates in 2015. Volatility in money markets has reached two year highs.

We see little reason for the stock market cascades to continue. Overall volatility and value at risk forecasts have increased in some sub portfolios as compared to last month. However; our exposure to public stocks remains low compared with most pension plans. We remain on guard. We note no change in either historical or forecasted volatility for the global portfolios and only a slight increase in risk for the PSPRS Trust globally.

Discussion was held regarding building a model of the Trust portfolio in order to analyze it regarding factors that have moved the economy over each period of time. The portfolio is designed based on the events of the past. Although maintaining historically low levels, the PSPRS Trust portfolio risk has increased by nearly a factor of two compared to May of 2013 and this trend appears to have stabilized compared to last month. Efficient portfolio construction kept the global PSPRS portfolio on track with risk forecasts increasing only slightly. Portfolio efficiency (risk-adjusted returns) is in the top decile for the past four years. The Trust has produced reliably positive results more than 75% of the time when examined in any time scale over the past two years.

Chairman Kingry inquired regarding cyber security and what place that takes within PSPRS and within the managers with which we choose to do business. Mr. Parham replied this is a huge feature of our landscape in which we live and part of our due diligence is to make sure they have adequate protection and disaster protection. Mr. Kingry then asked if the depth of the due diligence strategy has become more intense over the last 6-12 months. NEPC representatives stated it is part of their operational due diligence which is updated on a monthly basis by a separate team. Staff and consultants conduct parallel yet separate due diligence regarding operational risk in addition to investment risk which PSPRS verifies and confirms this has been completed. This question also applies to PSPRS and their data. It was suggested PSPRS conduct a review of their cyber security.
5. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Overview and Strategic Plan for the GTAA portfolio.

Mr. Ryan Parham  
Assistant Administrator and CIO  
Mr. Mark Lundin  
Deputy Chief Investment Officer  
Mr. Chris Hill; Mr. Anthony Ferrara  
NEPC, LLC  
Mr. Lincoln Smith  
Albourne America LLC  

GTAA stands for Global Tactical Asset Allocation and this portfolio was designed, not for long term opportunities of the asset classes, but investments are to be tactically allocated to outside asset managers across a wide range of assets who maneuver can with the skill and scope to do so. Types of managers with global abilities were discussed. The members of the committee wanted to know with specificity the assets and the correlated benchmarks. Every manager is verified by NEPC that they belong in that asset class.

Discussion was held regarding one benchmark which was felt was too low; that of the 3-month LIBOR+3% per annum. Also discussed were the role of the GTAA portfolio, the risk profile, where it fits into the Trust, fees, costs, current composition and future plans.


Marc Lieberman, Esq.  
Kutak Rock LLP  
Jennifer Eichholz, Esq.  
In-House Investment Counsel  

Mr. Lieberman stated a draft of the Appendices was developed and had been reviewed by Staff and NEPC. It was desired to have a policy to make investments and not have to change them on a particular day. This addresses the percentage amount this strategy is of the total plan, the number of strategies, and PSPRS staff coverage and outside consultants for each asset class. Discussion was held with the committee members regarding absolute and relative performance, costs and fees, current composition and future plans. In the governing documents none of this has changed how we have worked with staff and NEPC. This document has passed review by legal, NEPC and Staff.
MOTION: 1-10/22/14
Motion: At 11:17 a.m.
To recommend this policy Appendix X and review the benchmark annually.
Moved by: Mr. Petrenka
Seconded by: Mr. Kingry
Discussion: It was stated the Board of Trustees would like a review of the benchmark to be scheduled in the spring.
In Favor: Unanimous
Motion: Passes

6. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Overview and Strategic Plan for the Absolute Return portfolio. (Estimated time: 11:00-11:25)

   Mr. Mark Lundin  
   Deputy Chief Investment Officer

   Mr. Ryan Parham  
   Chief Investment Officer

   Mr. Lincoln Smith  
   Albourne America LLC

   Mr. Chris Hill  
   NEPC, LLC

The definition of Absolute Return is hard to find. Twenty-four underlying categories are grouped into 4 super strategies which have low correlation to the market with less exposure. This portfolio is opportunistic with less exposure to volatilities. Mr. Kingry suggested having less jargon. Mr. Lieberman responded he is trying to have consistence of terms through all appendices. Discussion was held about the objective, performance since inception, risk and fit into the Trust, fees and costs of the Absolute Return portfolio.


   Marc Lieberman, Esq.
   Kutak Rock LLP

   Jennifer Eichholz, Esq.
   In-House Investment Counsel

MOTION: 2-10/22/14
Motion: At 11:27 a.m.
To recommend to the Board of Trustees approval of Appendix XIV.
Moved by: Mr. Petrenka
Seconded by: Mr. Kingry
Discussion: None
In Favor: Unanimous
Motion: Passes

   Mr. Chris Hill
   Mr. Anthony Ferrara
   NEPC, LLC

During the last year, the public equities portfolio has trailed its benchmark. U. S. Equities underperformed the benchmark for the last year as of 6/30/14. There is an over allocation to small cap equities as compared to the benchmark and the equity long/short manager has underperformed. Non U.S. equities have underperformed and the individual manager has underperformed.

Since we have learned of the over allocation to small cap stocks, this has been reduced and there has been a pull back of the exposure of some small cap managers. Non-U.S. Equities portfolio has had a change in May of the benchmark in order to properly capture emerging markets. There will continue to be refinements in this fiscal year.

8. Upon the request of any member of the Committee, presentation by staff and possible discussion with the members of the Committee about the following manager selection matters:

   a. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to $20 million direct, and $20 million co-investment, with Centerbridge Capital Partners, L.P., or its affiliates in the Centerbridge III Parallel Fund, subject to final Staff and legal due diligence.

      Mr. Shan Chen
      Lead Portfolio Manager

   b. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to $75 million direct, and up to $15 million for co-investments, with Crestline Investors, Inc., or its affiliates in the Crestline Direct Lending Fund, subject to final Staff and legal due diligence.

      Mr. Mark Steed
      Lead Portfolio Manager

There was no request for review of the report.


   Jennifer Eichholz, Esq.
   In-House Investment Counsel

   a. Crestline Direct Lending Master Fund, L.P.; Date Closed: October 10, 2014
   b. Rockbridge Hospitality Fund VI, L.P.; Date Closed: October 7, 2014
   c. Iron Point Real Estate Partners III, L.P.; Date Closed: September 5, 2014
   d. Melody Capital Partners Onshore Credit Fund, L.P.; Date Closed: September 4, 2014
   e. Baring Asia Private Equity Fund VI: Date Closed: September 10, 2014
One transaction was discussed. One potential investment was terminated due to the terms of the deal. Discussion has held regarding the legal fees for new funds being higher than the legal fees for established funds because of the required level of investigation, research, and legal due diligence needed for new funds.

10. Schedule next meeting. *(Calendared for November 19, 2014)*

The next meeting will be held on November 19, 2014.

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.

No response was received from the Call to the Public.

12. Adjournment

The meeting was adjourned at 11:55 a.m.

APPROVED NOVEMBER 19, 2014.