PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES INVESTMENT COMMITTEE MEETING

November 19, 2014

MINUTES

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

Others Present: Mr. Ryan Parham, Chief Investment Officer
                 Mr. Marty Anderson, Deputy Investment Officer
                 Mr. Mark Steed, Lead Portfolio Manager and Chief of Staff
                 Mr. Shan Chen, Lead Portfolio Manager
                 Mr. Mark Lundin, Deputy Chief Investment Officer – Risk
                 Ms. Vaida Maleckaité, Sr. Investment Operations Analyst
                 Mr. Allan Martin, Partner, NEPC, LLC
                 Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock
                 Ms. Jennifer Eichholz, In-House Counsel
                 Mr. Jared A. Smout, Deputy Administrator
                 Ms. Bridget Feeley, Compliance Officer
                 Ms. Ivy Voss, Assistant Attorney General

1. Meeting called to Order at 10:20 a.m., Roll Call, Opening remarks.
   
   "Mr. Lauren Kingry
   Committee Chairman"

The meeting was called to order by Acting Chairman Mr. Richard Petrenka.

2. Review, discussion and possible Action to approve Investment Committee Minutes from August 27 and October 22, 2014.

   "Mr. Lauren Kingry"

   **MOTION:1-11/19/14**
   At 10:01 a.m.
   Motion: To approve the Investment Committee Minutes from August 27 and October 22, 2014.
   Moved by: Mr. Davis
   Seconded by: Mr. Petrenka
   Discussion: None
   In Favor: Unanimous
   Motion: Passes: Mr. Kingry - Excused

3. Discussion of monthly review of Management Fees for Trident, Littlejohn, Alcion, Baring Asia V, and LSV Special Opportunity Fund IV.

   "Ms. Bridget Feeley
   Internal Audit and Compliance Officer"

   Ms. Feeley asked the Board if they wanted her to present her report or just give them the information, and the Board decided to have Ms. Feeley present the information for now. Sean Callahan is developing a template for management fees due on investments. It
was reported that PSPRS has approximately 160 investments at this time. The Board wants to look at all 160 investments and process at least five investments per month. The audited amounts have been reviewed from legal documents and Ms. Feeley described this process. The members of the Investment Committee requested this number be raised to 15 or 16 per month, since there are so many management companies, in order to complete the reviews in about one year. Mr. Allan Martin of NEPC stated the typical fee is based on commitments. At the end of the commitment period the pay is based upon performance, and the gain is not recognized until this fee is paid. If a Fund is successful, a lot of fees are returned at the end of the Fund. Funds typically run five years. Mr. Lundin said that when a fee is paid, it shows in performance as a loss, and the gains are listed at the end of the Fund. The goal is to check that we are paying the required contracted fees and not overpaying. This is a complicated industry issue and NEPC will work on this reporting issue. Mr. Anderson said that there are small drains on performance until the management fees are returned at the end of the Fund. There is no guarantee of getting the management fees returned. Mr. Petrenka asked to have a report regarding returns generated by managers.

4. Report by Investment Department Staff and discussion regarding (i) the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of September 30, 2014; 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

Equities had a down month globally with a disappointing return of -1.53% compared to the benchmark which was -1.50%. International equities outperformed the benchmark by 13 basis points. Performance for private equities was +1.00%, fixed income outperformed the benchmark by +2.00% and credit opportunities outperformed the benchmark by 66 basis points.

For the fiscal year-to-date the Trust was down by -459% and the benchmark was down -0.55%. PSPRS is still in the top quartile of our peers. For the year-to-date the Trust is +5.16% and the benchmark is +4.22%. All alternative assets classes had strong performances except for real estate.

5. Report by Investment Department Staff regarding Portfolio Risk as of November 7, 2014.

Mr. Mark Lundin
Deputy Chief Investment Officer - Risk

The increased financial riskiness of September provides a unique opportunity to gauge the performance of the PSPRS Trust portfolio under adverse conditions. The Trust was adversely affected by falling equity markets in September of -1.53%. If we had been holding more equities, as many of our peers do, it is estimated that we would have had a September loss of -2.5% for the month. Over the past year, high portfolio efficiency has moved PSPRS into the top quartile in terms of absolute performance for three quarters of 2014 thus out performing 91% of all other defined benefit pension trusts with assets under management of greater than one billion dollars in the U. S. For the year-to-date the Trust is among the top 17% of pension fund peers with risk that is one of the lowest of pension plans in the nation. Forecasted volatility and value at risk decreased from last month. Stress testing is ongoing.
6. Presentation and discussion by Investment Department Staff and Specialty Consultants regarding the annual Overview and Strategic Plan for the Risk Parity portfolio.

   Mr. Ryan Parham  
   Assistant Administrator and CIO  
   Mr. Mark Lundin  
   Deputy Chief Investment Officer  
   Mr. Allan Martin, Partner  
   NEPC, LLC  
   Mr. Joel Widdon  
   Bridgewater Associates, LP

Discussion of Appendix XIII was tabled until the Board of Trustees meeting in the afternoon.


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

Mr. Parham discussed risk parity and the Bridgewater portfolio. Mr. Patrenka asked what is the goal of risk parity. Mr. Parham stated Risk Parity strategy is designed to balance risk across a variety of different circumstances and environments. It is insurance for PSPRS by balancing parts of the portfolio to deploy it into assets that will help us. It has to have a benchmark. We stress the portfolio in different environments to see results and how we can fix the portfolio in a low growth period. In a period of low growth and high inflation, the portfolio gets hurt and the question is how can we fix that? We cannot fix it completely, because the assumed earnings rate of the portfolio goes down significantly, but what we can do is accumulate up to 4% of assets that protect us from low growth and high inflation. If there is low growth and high inflation, the Fund is hurt. It is good to have 8 percent risk parity, but 20 percent is better. TIPS, long U. S. Treasuries, certain commodities will perform well in environments that hurt us the most. This is a little bit of insurance in case of an environment that hurts us the most occurs.

Discussion was held regarding putting a larger amount into the Risk Parity asset class versus a possible negative drain on the portfolio and how actively this is to be managed. Mr. Martin stated the goal is to try to shrink serious downturns in earnings. Having something to protect us in severe downturns; but not so much that it would pull us away from achieving 7.85% assumed earnings rate. 8% in this portfolio pulls us away from achieving 7.85%. This is not a returns enhancer, but a risk reducer.

Mr. Davis asked how active is this managed. Mr. Parham stated that it is looked at twice a year.

Mr. Lieberman stated the chart in Appendix XIII Requirements for Management of the Risk Parity Strategies to the Public Safety Personnel Retirement System Amended and Restated Statement of Investment Policies may be confusing and suggested revising the
table because it is not exactly correct. Mr. Anderson discussed with Mr. Martin on how to make the chart more intuitive. Mr. Lieberman will amend the chart for more clarity.

**MOTION: 2-11/19/14**

**Motion:**
To recommend to the Board of Trustees consideration of Appendix XIII Requirements for Management of the Risk Parity Strategies to the Public Safety Personnel Retirement System Amended and Restated Statement of Investment Policies with modification of the table.

**Moved by:**
Mr. Davis

**Seconded by:**
Mr. Petrenka

**Discussion:**
None

**In Favor:**
Unanimous

**Motion:**
Passes: Mr. Kingry - Excused

7. 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 an additional investment of up to $30 million with BlackRock, Inc., or its affiliates in the BlackRock Frontier Markets Fund, subject to final Staff and legal due diligence.

   Mr. Shan Chen
   Lead Portfolio Manager-Equity

b. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to $30 million with Trustbridge Partner, or its affiliates, in the Trustbridge Partners V, L.P. Fund, subject to final Staff and legal due diligence.

   Mr. Shan Chen
   Lead Portfolio Manager - Private Equity

c. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to €30 million for direct investment and up to €20 million for co-investment in Catalyst European Real Estate Partners II, subject to final Staff and legal due diligence.

   Mr. Marty Anderson
   Deputy Chief Investment Officer

d. Manager Selection Report by Investment Department Staff and possible discussion regarding a potential investment of up to $40 million direct and up to $20 million co-investments in Rockbridge Hospitality Fund VI, L.P., subject to final Staff and legal due diligence.

   Mr. Marty Anderson
   Deputy Chief Investment Officer

No questions were asked.

   Jennifer Eichholz, Esq.
   In-House Investment Counsel

   a. Centerbridge Capital Partners III, L.P. Fund; Date Closed: 10/24/2014
   b. Catalyst European Property Fund II; Date Closed: 10/28/2014
   c. Select Equity Group/Baxter Street International Equity Strategy; Date Closed: 10/28/2014
   d. Lubert-Adler Student Housing was dropped because PSPRS cannot be part of a guarantee. No workable solution could be had.

Summary of this report was presented by Ms. Eichholz, with discussion contributed by Mr. Parham regarding the terminated Lubert-Adler Fund.

9. Report from NEPC regarding the First Fiscal Quarter (Third Calendar Quarter) investment performance for the Arizona PSPRS Trust.

   Mr. Allan Martin, Partner
   NEPC, LLC

Mr. Martin gave a copy of the NEPC Third Quarter Performance Chart to each Board member. During the third quarter PSPRS performed in the top 9% of large public funds with a return of 49 basis points better than most funds. There are still some write offs for the real estate portfolio. If we can maintain a 7.85% return with lower volatility it will be good since we have adopted a low risk strategy.

10. Report by Chief of Staff on PSPRS special projects.

    Mr. Mark Steed
    Chief of Staff

Regarding our access to the Arizona League of Cities and Towns, we need to communicate in a more straight forward fashion. In order to communicate with the external world our long term purpose is to develop 20 important and often asked questions with answers to be placed on our website as reference. Mr. Steed is working on these questions and hopes to have this project completed by the end of the year. Also to be developed is a document to bridge the gap between investment policy and goals with practical decision making concepts for the external world regarding portfolio construction. The third document to be developed is a primer that highlights responsibilities for the System’s key fiduciaries. Attendance at the League of Cities and Towns is a positive endeavor. We are supportive of communication to eliminate confusion.

11. Discussion regarding budget increases for non-filled Investment Staff positions and possible recruitment of additional Staff.

    Mr. Ryan Parham
    Assistant Administrator
    and Chief Investment Officer

Tabled for future discussion.
MOTION: 3-11/19/14
Motion: At 11:31 a.m. To recess Open Session and enter Executive Session to discuss confidential investment(s).
Moved by: Mr. Davis
Seconded by: Mr. Petrenka
Discussion: Due to Executive Session not specifically listed as an agenda item, Ms. Voss was called into the meeting for consultation. Executive Sessions are held to receive legal advice regarding contracts and litigation matters, salary and employment matters, negotiations for real estate purchases and union matters, but not to have private discussions among board members. The matter the committee wants to discuss in Executive Session was not on the agenda. Mr. Parham suggested sending a confidential report to the committee members and on a one-to-one basis they may come into the office for discussion or a special meeting regarding this matter may be called.

In Favor:
Motion: At 11:46 a.m. the motion was withdrawn by Mr. Davis and seconded by Mr. Petrenka. Mr. Kingry - Excused

A real estate review will be held in January.

12. Schedule next meeting. *(Calendared for January 21, 2015)*

A meeting may be called in December regarding the Administrator selection process.

13. 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 was no response to the Call to the Public.

14. Adjournment

The meeting was adjourned at 11:51 a.m.

/s/ Richard Petrenka
Mr. Richard Petrenka, Acting Chairman